UNITED STATES-MEXICO FREE TRADE AGREEMENT: THE SMALL BUSINESS PERSPECTIVE

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UNITED STATES-MEXICO FREE TRADE AGREEMENT: THE SMALL BUSINESS PERSPECTIVE

WEDNESDAY, APRIL 24, 1991

House of Representatives,
Committee on Small Business,
Washington, DC.

The committee met, pursuant to notice, at 10:03 a.m., in room 2359-A, Rayburn House Office Building, Hon. John J. LaFalce, (chairman of the committee) presiding.

Chairman LaFalce. The topic of today's hearing of the Small Business Committee will be the proposed United States-Mexican Free Trade Agreement, or the United States-Mexican-Canadian Free Trade Agreement, or the North American Free Trade Agreement, or any of the above that may emerge from proposed negotiations. Most particularly, it will be on the impact that such an agreement might have on the small business community.

We will also, of course, be extremely interested in a separate issue and that is the issue of fast-track authority that the President has requested. As I understand it, fast-track authority will be given to the President automatically once he requests it, unless either of the two Houses of the Congress should vote to disapprove continuation. If either House doesn't act—apparently under the terms of the law—the President will have fast-track authority.

Of course, under the terms of the law, too, it is recognized that fast-tract authority is really illusory authority. The fast-tract process remains subject to the constitutional rulemaking power of the U.S. Congress, and the U.S. Congress has the inherent constitutional power to change its rules any day it so desires. It is simply a question of whether, on any given day, the Congress of the United States wants to be bound by fast-tract procedures, or whether it wants to exercise its authority to offer amendments to any bills implementing trade agreements.

There is nothing that any person can do to take away this inherent authority of Congress. There is nothing that any rule can do to take away that authority 1 minute from now. There is nothing that any law can do to take away that authority. This is recognized in all previous legislation authorizing fast-track procedures. Legal precedent clearly says that fast-track authority is granted subject to the right of Congress to take it away any time because Congress cannot give it away permanently.

People do not know this, but they ought to know this—that in large part what we are engaged in is theatrics for the benefit of the foreign country that we are negotiating with. We are telling them

that we are going to proceed in a manner which confines the Congress, when constitutionally the Congress cannot be confined. If we today vote for fast-track authority, and the President submits an agreement tomorrow, constitutionally we have every single right to debate the agreement and to offer any amendment we want to the implementing legislation.

Now, there will be some inhibitions. Supporters of fast-tract will say, "Oh, you gave your word. Therefore, you cannot now change procedures." Or, "The Congress four Congresses ago gave its word and, therefore, newly elected Members cannot exercise their constitutional prerogatives," et cetera. Well, maybe there are times when this should be done, especially when we are dealing with 100 countries in truly multilateral negotiations. Maybe it is necessary for the U.S. Congress to say that it will act not as a Congress, but as a parliamentary body and just vote yes or no on any final agreement.

But I think there is a legitimate question of retaining congressional prerogative when you are dealing with a country with such profound differences with respect to virtually every issue imaginable; where there is uncertainty as to whether you are dealing with, basically, a democracy or whether you have a form of government that just cannot be called a democracy under any stretch of the imagination; where you have wages that are 10 to 20 times higher on average in one country as opposed to another country, et cetera, et cetera. This raises serious questions in my mind as to whether Congress should proceed in such a manner.

I say this as a person who has favored the GATT negotiations; as a person who has incurred the wrath of labor by voting against the textile bill and to sustain the President's veto of the textile bill. I did this because I think once you enter into a deal with another country you ought to keep your word, and we entered into these bilateral textile arrangements. In many respects, I was probably the strongest proponent in the U.S. Congress for a free trade agreement with Canada, but who also recognizes that there are profound differences in the economic and political circumstances between Canada and Mexico.

So, I am not going to suggest to anybody that I do not have some predispositions on the issue. I do have some strong predispositions, but I want to hear what others have to say about it. That is the reason we are having the hearing.

I want to enter into a trade agreement with Mexico. I believe in expanded trade. I want to enter into a more liberalized trade agreement with Mexico. I believe in liberalized trading arrangements. But I would like everything to be on the table. One of the most important things that Mexico has is energy, but we are told by Mexico that energy cannot be open to discussion. I say to myself, "Well, how can we start?"

As far as free trade, well, that is something else. We talk about free trade so loosely. The only free trade that I really know of is the trade that exists between and amongst the 50 States because we have a constitutional provision which says that there can be no barriers to interstate commerce.

We do not really have a free trade agreement with Canada. I think I know as much about that trade agreement as anybody in Congress. I have held at least a dozen hearings on it. It is a "freer"

trade agreement. We do not, as yet, have an agreement with Canada on one of the most important issue, and that is the issue of subsidies. We said, "Well, we will put that off for maybe 7 years."

We are not going to have a "free trade" agreement with Mexico. The President is not going to negotiate such a thing. It will be a freer trade agreement. But, to date, we have no idea what form of free trade agreement, or freer trade agreement, will emerge from negotiations. We have no idea whatsoever. I actually strongly believe that the President has no idea of what form the agreement will take nor does Carla Hills have an idea of what it is going to be.

I have been through this type of negotiations. I had at least a dozen private briefings on the Canadian-American Free Trade Agreement from the beginning to the end. I went to Canada about a half dozen times to talk with their negotiators, et cetera. The final terms of the agreement really were not decided until the last couple of days between Jim Baker, Brian Mulroony, Derek Ferdy, and Pat Carney, et cetera.

That is typical of these negotiations. I talked with one negotiator—I will not reveal his name—and he said, "Well, it is possible to negotiate something like this with Canada with difficulties. Boy, I hope nobody ever tries this with Mexico. It would be impossible." This was a U.S. negotiator.

We are going to try something, and I think we should. I believe in expanded trade. I believe we have an obligation to do all we can to assist both ourselves and our neighbor to the south that is in such dire need of economic help. But I do not want to give them economic help by giving them our jobs either. I am worried about that.

I am worried about that because I have seen it in my own congressional district. I have seen my plants closed down and move south under the maquiladora program. I am fearful that what we are going to do is authorize or encourage a maquiladora process that will be 20 or 50 times larger than at present. I am very concerned about that.

I just do not want Congress to proceed in such an important initiative by saying, "Well, we will only vote yes or no," because I know how we vote. When we vote yes or no, it is often not on the merits of an issue. It is on the credibility of the President and how Congress cannot impair the credibility of the President of the United States. I mean, Congress is put in the position of voting for an agreement whether it is good or bad. Otherwise, we are told the President's credibility will be jeopardized internationally, or defeat might cause the downfall of the Salinas government.

Once an agreement has been negotiated, Congress is warned that if you vote it down, the Salinas government goes down. We cannot have that. Thus, Congress will not vote on the specific merits of the agreement. That will be the last thing we really consider.

These are my concerns, and it is time to start talking about those concerns before Congress agrees to extend fast-tract authority. Fast tract, itself, is little more than a present expression of future intent; that is, an expression of what Congress will do at the end of 1992 or what we will do sometime in 1993 with respect to an agree-

ment, the substance of which is unknown to us. That is my opening statement.

[Chairman LaFalce's statement may be found in the appendix.]

Chairman LaFalce. Mr. Ireland, may have a slightly different perspective. I am not sure.

Mr. Ireland. Thank you, Mr. Chairman. I would like to start by saying that I believe in the free market system. I think the trade policy should seek open markets wherever possible. I believe that American businesses are the most innovative, most productive, and the best in the world, and that in a fair competition, their products and services will beat out the competition in a fair fight 90 percent of the time. So, I feel very strongly that a free trade agreement with Mexico—as long as it is fair and as long as it is verifiable—is in the best interests of small businesses and in the best interests of all Americans.

But I also know that in order to compete, American small businesses must have a fair shot, so I am looking forward to hearing what we on the Small Business Committee can do to assure that any trade agreement between the United States and Mexico is fair to our Nation's smaller businesses. A fair shot means markets that are open in both directions without hidden tariffs or other more subtle barriers to competing in the Mexican market.

I am certainly aware of the dangers of a lopsided agreement, but I think that the benefits for a good agreement speak for themselves. Since Mexico joined GATT in 1986, it has reduced its tariffs from 100 percent to roughly 20 percent. As a result, U.S. exports to Mexico more than doubled from $12 billion to $28 billion in just 4 years. When you consider that every $1 billion of additional exports creates 22,000 new jobs in America, you can clearly see that there is much to be gained.

Yet, Mexico's trade barriers today are still more than twice as high as ours. If we can further reduce its barriers to our trade, there will be new opportunities for U.S. exports for small business and more jobs for all America—remembering, of course, that it is small business that has been generating the new jobs in America.

Every economic boom in our history has been led my a major, market-opening initiative like the creation of GATT in 1948. Every steep downturn has been led by a protectionist retrenchment like the Smoot-Hawley tariff in 1930.

We must heed the lessons of history and work to open markets, not to close them. We must make absolutely sure that our Nation's small businesses have the opportunity to compete on a level playing field with other countries. I believe that is an obtainable goal.

Mr. Chairman, I was hoping to hear what small businesses around the country were saying about the United States-Mexico Free Trade Agreement, but it would appear from the witness list that we are not going to get that chance here this morning. I would respectfully suggest that in the future, the small business hearings on this subject might let us hear from some actual small businesses.

Chairman LaFalce. Who did you request, Mr. Ireland, that I did not have before this table?

Mr. Ireland. Mr. Chairman, I did not request any——

Chairman LaFalce. If you had requested no one, please do not make statements like that. Thank you.

Mr. Ireland. OK. I suggest in future small business hearings, I am not saying this hearing, I am saying that for small business hearings in the future, we need badly to hear from small businesses. Thank you, Mr. Chairman.

Chairman LaFalce. Well, then, please let me know who they should be ahead of time rather than at this conference table right now.

Mr. Ireland. I am just hoping, Mr. Chairman, that we have future hearings. I am talking about future hearings. I think you are on the trail of a good subject, and I would suspect that we are going to have future hearings.

If we have future hearings, I hope very strongly that we have some small businesses pro and con. We all have small businesses that are quite concerned about the Mexican thing, but we have some that are for it and I think we need to hear them if we have future hearings. No criticism whatsoever about this hearing, Mr. Chairman.

Chairman LaFalce. Any other statements?

Mr. Camp. Mr. Chairman.

Chairman LaFalce. Mr. Camp.

Mr. Camp. Thank you, Mr. Chairman. I just have a brief statement. Thank you for holding this hearing to allow us to further explore the challenges and opportunities of a United States-Mexico Free Trade Agreement.

Unfortunately, I will not be able to stay for the entirety of this hearing because the Agriculture Committee on which I serve is also holding hearings on the United States-Mexico Free Trade Agreement as well as fast-track authority with testimony from Secretary of Agriculture, Ed Mactigan. U.S. Trade Representative Carla Hills, and Secretary of Labor Lynn Martin.

Trade affects all businesses, especially small business, and understandably all of us have constituencies with unique concerns about trade policy. Whatever the case may be, we need to work for free trade for our continued economic growth but also to make sure that it is a level playing field.

While I am unable to stay and listen to the testimony, I look forward to reading that and would like to submit the balance of my statement for the record.

[Mr. Camp's statement may be found in the appendix.]

Chairman LaFalce. Surely. Any other opening statements by Members?

Mr. Hancock. Mr. Chairman.

Chairman LaFalce. Mr. Hancock.

Mr. Hancock. This issue is something that has been debated and discussed for many, many years. Sometimes, I get the feeling from hearing this debate that we are looking at a new idea here.

One of the things that I am truly concerned about, though, is that we seem to be addressing only the economic impact of a free trade agreement with Mexico. I think there is a much broader impact. Frankly, I have a little problem of discussing a trade agreement that has not been written. I would like to see the details, and I do not think we really have any details at all.

But I am concerned about the potential political stability or instability of Mexico and Central America. We have an opportunity to demonstrate that the principles that this country has operated on can improve the economic situation in Mexico and clear on down into Central America, promoting the political stability of the Western Hemisphere.

You could say this is a national defense issue here, so I think there is much broader debate than just looking strictly at the economic impact. The overriding issue is the political stability of the Western Hemisphere rather than just specifically the economic impact.

Thank you, Mr. Chairman.

Chairman LAFALCE. Yes; Mr. Ramstad.

Mr. RAMSTAD. Mr. Chairman, thank you. I want to commend you for holding this very timely hearing on the United States-Mexico Free Trade Agreement, and I applaud your leadership in support of freer trade.

Mr. Chairman, I represent a district in Minnesota, a State that has benefited greatly from expanded trade and enlarged export markets. There are over 95,000 jobs directly related to foreign trade in Minnesota and almost 2,000 Minnesota businesses now export. In 1989, Mexico ranked ninth among Minnesota's 167 export markets. While foreign trade has been contributing to half of the Nation's recent economic growth, we must ensure that our trade policy breaks down the barriers to exporting for small business so they get a share of growing export markets. Thus, as negotiations with Mexico now go forward, it is of importance that this committee closely examine how small businesses will be treated under a free trade agreement.

Mr. Chairman, I look forward to hearing the testimony of our witnesses today and respectfully submit the remainder of my statement for the record. Thank you.

[Mr. Ramstad's statement may be found in the appendix.]

Chairman LAFALCE. Thank you. Mr. Orton.

Mr. ORTON. Thank you, Mr. Chairman. I would also like to compliment the chair on holding these hearings on this very timely and important topic. I would also like to compliment the Chair on the breadth of his understanding and statement of the issue.

I would associate myself with the Chair's comments at the beginning of this hearing and look forward to the testimony. Thank you.

Chairman LAFALCE. Thank you. Well, I think we will begin.

We have an excellent panel this morning although it is not as excellent as I would have liked. I wanted it to be led off by the International Trade Administration [ITC]. In fact, they had agreed to, and I think it wasn't until yesterday that they backed out. The ITC is the agency that did the study which will be commented upon by some of the members of the panel. I had a great many questions that I wanted to ask them personally about this study. They said yes; they would testify on behalf of the administration, and at the last minute they pulled out.

So, we will now have Mr. Bill Bywater, the president of the IUE, the Electrical, Salaried, Machine, & Furniture Workers, AFL–CIO. He will be followed by Mr. Jeff Faux who is the president of the Economic Policy Institute. Mr. Christopher Whalen, senior vice

president of Whalen Co., Inc., a Washington business consulting firm specializing in investment and trade, and Mr. Andrew Reding, a fellow with the World Policy Institute in New York.

Let us hear from Mr. Bywater.

TESTIMONY OF WILLIAM H. BYWATER, INTERNATIONAL PRESIDENT, INTERNATIONAL UNION OF ELECTRONIC, ELECTRICAL, SALARIED, MACHINE & FURNITURE WORKERS [IUE] [AFL-CIO]

Mr. BYWATER. Mr. Chairman, members of the committee. I am Bill Bywater, president of IUE. That is the International Union of Electronic Workers.

Thank you for this opportunity to comment on the proposed free trade agreement with Mexico. It is our view that this agreement would be a disaster for American workers and for our economy overall.

IUE represents production and maintenance workers in a variety of industries, including electrical, electronics, transportation, fabricated metal, power-generation equipment, automotive parts, home appliance, and furniture. At one time, we had some 360,000 members. Today, we have 265,000 members. This dramatic decline is due in large part to the moving of production from the United States to low-wage labor markets, such as Mexico. While millions of American homes today contain color televisions, compact disc players, major appliances, and electronic goods with American brand names, most of these products are no longer made in this country. The United States already has lost entire industries. Radio and television manufacturing are two examples with which I am very familiar, and others are sure to follow if the exploitation of cheap foreign labor continues to be a cornerstone of our trade policy.

Cheap labor, however, is precisely the foundation of the proposed agreement. Free trade, according to this administration, means that workers compete with those who are most impoverished. For those who support this agreement, Mexico's most outstanding attractions are the poverty of its citizens and their willingness to work for subsistence wages. The superior skill and productivity of American workers are irrelevant in this context. Under no circumstances can U.S. workers compete with Mexican workers who earn less than 75 cents per hour.

The Mexican maquiladora program has shown us what happens to American jobs when corporations are given incentives to go abroad for cheap labor.

Electronics manufacturing and assembly now constitute the third largest maquila industry. Maquila workers assemble a variety of products that are made, or were once made, in the United States by our members. During the past decade, many of our employers including Bendix, Chrysler, G.E., General Motors, Litton, North American Phillips, Sylvania, United Technologies, Westinghouse, and Zenith abandoned their plants in this country and moved production to Mexico.

The proposed agreement would expand the area from which companies could recruit low-wage workers. It would increase corporate

opportunities to circumvent our minimum wage and environmental laws.

The Bush administration says that the Mexican Government is committed to strengthening environmental, public health, and worker protections.

The realities of the maquiladora program, however, undercut these assurances. Most maquila plants pose severe health and environmental risks to workers, to nearby communities, and to U.S. border areas. Within the plants, dangerous working conditions and improper management jeopardize worker safety. Outside the plants, including in the U.S. border regions, polluted water, air, and hazardous waste threaten public health and the environment. Given that it is the cheap cost of doing business which draws desperately needed capital to Mexico, we see little likelihood that the Mexican Government will support any meaningful change.

Mr. Chairman, if you or other members of this committee have visited the border region, I know you must agree that the living conditions for the maquila workers and their children are simply appalling.

General Dynamics, one of America's largest defense contractors, recently announced plans to open a new plant in Tijuana, Mexico to produce electrical parts for its defense-related products. This announcement highlights another concern beyond domestic employment. Roughly one-third of our members work in defense-related industries, and our experience with many of this Nation's defense contractors tells us that this country's capacity to maintain a viable defense industrial base is being threatened. Defense contractors are among the many companies, encouraged by U.S. trade and tax policies, grabbing the change to improve their already healthy profits by exploiting cheap Mexican labor. The folly of depending on foreign sources for our military defense should be self-evident.

Our members are outraged that the Bush administration is forging ahead with this agreement given the current backdrop of recession and job loss in this country. U.S. industrial output continues to slide, and 15.8 million Americans are either totally or partially unemployed.

I would like to cite for you some of the plants and areas in the country where IUE members already have lost jobs to Mexico. My first example involves IUE Local 748 in Jefferson City, Tennessee. In 1978, with over 2,000 production workers, the North American Phillips Consumer Division was one of the largest employers in Eastern Tennessee. Our members made television cabinets and electronic components for televisions and video games.

In 1982, 950 workers lost their jobs, and 800 of these jobs went to Mexico. Our members made only $5.40 an hour. Hardly an extravagant wage, but they in no way could compete with Mexican workers making just $5.20 a day.

By 1986, this plant no longer did any electronics work. It was all relocated to Mexico, and when the time came to negotiate a new contract, the company reminded us of their seven plants in Mexico.

Today, we only have 550 members in Local 748. A few months ago, the company made a bid to produce 30,000 television cabinets. They won the bid. The contract received, however, was for only 6,000 cabinets. The remainder, 24,000 cabinets, went to Mexico.

My next example is IUE Local 717 in Warren, Ohio. In 1973, we represented some 13,000 production workers at the Packard Electronic Division of General Motors. By 1986, this division had seven plants in Mexico employing more than 15,000 workers. Meanwhile, employment in Warren has steadily shrunk to less than 9,000. Today, GM has 24 manufacturing plants in Mexico with some 24,000 workers. Only 8,200 jobs now remain in Warren.

My third example is pertinent to the committee's particular focus on small business. Many IUE members are employed by small companies which rely on larger corporations for their business. For example, Delco Products, a GM subsidiary, subcontracts to AES Interconnects, an IUE employer in Kirkland, Indiana. IUE members at this plant make wire harnesses and make $5.00 an hour. The business there has been threatened and our members' jobs lost because Delco turned to another supplier across the border.

Last year, Delco shipped an order to a maquila in Delanosa, Mexico, and AES laid off our members.

Next is IUE 761 in Louisville, Kentucky. When GE purchased the Roper Stove Co. 3 years ago, our local was told it could expect 600 new jobs. Those jobs never materialized because the manufacturers of the Roper range was shipped to Mexico.

My last example concerns Local 849 in Evansville, Indiana. In 1986, we represented 850 workers at two Zenith plants. Today, both plants are completely closed. Zenith moved the work to Mexico, and 1,000 workers lost their jobs.

If time permitted, I could cite many more examples. The free trade proposal will only increase unemployment. It will give U.S.-based companies a green light to shift more and more work out of this country. It will discourage domestic investment in manufacturing facilities, technology, equipment, and worker education training.

Mr. Chairman, the ramifications of this proposal are far too broad and serious for the negotiations to proceed on a fast track. We urge you to oppose the fast track and subject any agreement that is reached to full scrutiny, debate, and consideration of the U.S. Congress.

Thank you. I would be happy to answer any questions you may have.

[Mr. Bywater's statement may be found in the appendix.]

Chairman LaFalce. Thank you, Mr. Bywater. We will withhold questioning until we hear from the other members of the panel. Our next witness will be Mr. Jeff Faux, president of the Economic Policy Institute.

Mr. Faux.

TESTIMONY OF JEFF FAUX, PRESIDENT, ECONOMIC POLICY INSTITUTE

Mr. Faux. Thank you, Mr. Chairman and members of the committee. I have a longer statement that I would like to submit for the record, if I might.

Chairman LaFalce. We will put the entirety of all your statements into the record, and you may feel free to summarize them verbally.

Mr. Faux. Thank you, Mr. Chairman, members of the committee.

We believe that the trade agreement that is proposed by this administration will result in a net loss of jobs and income for American workers. It is because the capacity of the Mexican economy to absorb American exports, American goods, is much, much smaller than the capacity of the Mexican economy to produce goods now produced in the United States for reexport back here. The attraction of Mexico for the American business community is not Mexico's small market. Mexico's gross domestic product is about 3.6 of that of the United States. So, the number of——

Chairman LaFalce. 3.6 percent?

Mr. Faux. 3.6 percent. So, the number of consumers in Mexico ready to buy American goods is very tiny. However, the Mexican population is about 35 percent of ours. So, the first problem is you have this imbalance between potential exports and potential imports.

The biggest danger of this proposed agreement, I believe, is that it will, in the short-term and cumulatively in the long-term, encourage American producers to respond to international competition by choosing a low-wage option rather than the option and the strategy that everyone in this room, I think, prefers, and that is the strategy of innovation and technological progress.

A recent report from a blue ribbon panel that was chaired by former Secretaries of Labor, Brock and Marshall, made the point that the Nation has a choice in the global economy between a high-skilled, high-wage future and a low-wage future. What the Mexican Free Trade Agreement, as proposed by the administration, will do is put us solidly on the path to lower wages, lower incomes, and lower living standards.

In terms of the impact on the small business community, two types of firms will be hurt. First, the retailers and services businesses that serve the employees who would lose their jobs. Second, the suppliers to large U.S. producers who will begin to shift investment to Mexico if this goes through. The smaller suppliers typically cannot move to Mexico, cannot invest in Mexico to get lower wages, and so, they will be at a continual disadvantage to larger firms.

I would like to comment on the studies that have been made by the administration and other proponents of this proposal. There are several things that the members of this committee should remember. First, the studies which allege only minor impacts——

Chairman LaFalce. Which studies are you referring to?

Mr. Faux. The study of the U.S. International Trade Commission, the Peat-Marwick study that was financed by the Mexico-United States Business Committee and cited by numerous members of the administration in support of the FTA and the so-called Copper Almond study that was supported by the U.S. Department of Labor. We have looked at those studies. The reason they estimate only small impacts from the FTA is that the studies are designed to produce small impacts. It is not so much the intentions of the investigators, but the limits of economic analysis.

For example, they do not consider the shift of investment from the United States to Mexico and, therefore, the shift of jobs. Thus, the number one economic question about the FTA is not addressed in any of those studies.

Mr. Chairman, if you remember nothing about this testimony, remember this point because it is very important. These studies have been misused. In addition, both the ITC study—

Chairman LAFALCE. This is fundamental. I did not know that until you just said that. They did not study the question of where future investment would be made?

Mr. FAUX. That is right. For example, the ITC study says on this point that some people think we might get some investment shift. However, we do not know the intentions of the companies. Therefore, we cannot assume anything about it. So, the study assumes that no investment will be shifted.

Second, both the ITC study and the Peat-Marwick study assume full employment. Now, if you think about that for 30 seconds, you will realize that you cannot have any unemployment effects if your study assumes full employment. They assume that people don't lose jobs; they just shift between one industry and another. Thus, everyone who loses a job in those studies gets instantaneously reemployed. It is very important to understand the limitations of those studies. Moreover, what has been happening over the last few weeks is that as people criticize these studies, the administration has been pulling new numbers out of a hat.

We, sir, have attempted for some 10 weeks to get out of the International Trade Commission the basic data on which it based its studies. We have been told that data is not available. We have been asked to file a Freedom of Information Act filing. If fast track becomes the process for this proposal, I can tell you, as independent researchers, that it will be impossible within 90 days to get the kind of information you need to make some analysis of what the claims of the final proposed agreement will be.

This is our experience over the last 10 weeks, and 90 days goes pretty fast when you are trying to get information and the Government says, "File a Freedom of Information Act action."

Another point I would like to make, sir, is that it is important to understand that the overwhelming majority of American workers who lose their jobs to import competition are reemployed at a much lower level of wages and benefits, if they are reemployed at all.

The economic theory behind the administration's proposal is that the Mexicans will get the low-wage jobs, which will then open up jobs at the top of the ladder for American workers. The problem is that there is no top of the ladder. The experience of the last 15 years tells us, and the U.S. Department of Labor studies show, that when American workers lose those jobs they do not get reemployed at higher-skilled, high-wage jobs. There is no up the ladder. It is just down or off the ladder.

In this context it is misleading to compare this proposal with the entrance of Spain, Portugal, or Greece into the European community. United States-Mexico wage gaps are much larger. The U.S. Department of Labor says 7 to 1, but there is evidence that they are a lot higher than that. Mexico has a larger population and the Euro-

pean community has retraining, safety net, and subsidy programs that are unknown in the United States. The European Community planned for the integration of Portugal, Spain, and Mexico, and paid out large subsidies to those countries to improve their infrastructure and to assure that environmental standards will be up to EC standards.

It is important to remember that the population who will suffer most from this proposal in the United States is exactly that population, the majority of workers without college degrees, that has lost real income dramatically over the last 10 years.

The latest numbers tell us that a male high school graduate with 1 to 5 years experience, in 1987 was making in real terms about 20 percent less than a male high school graduate in 1979. Since 1987, the numbers have gone down even further so we have, at the very least, a 20-percent drop in real income among the people who are going to be hurt most by this agreement.

I would like to say a word about the promises of the Mexican Government that it will strengthen worker and environmental protections. It is important to understand that protections for the environment and for workers in the United States and other advanced industrial countries are not really the result of what a government decides to promise or even put in the law. It all depends on enforcement which, in turn, requires independent institutions, like independent labor unions, like an independent environmental movement, like an independent judiciary, like a genuine two-party system, to put pressure on whoever is the government to implement these protections. Those independent institutions, unfortunately, do not exist in Mexico.

Again, looking at the European community experience there was no fast track there. There was a wait and see, and gradually Greece, Portugal, and Spain demonstrated that they truly had embraced democratic processes and only at that point were they allowed to come in.

Mexico's primary economic problem is not trade. It is debt. The administration's proposal is an effort, in effect, to have American workers——

Chairman LaFalce. Can I just interrupt for two seconds?

Mr. Faux. Yes.

Chairman LaFalce. This is also my strong belief. I was the author of the International Debt Management Facility Act that was incorporated in the omnibus trade bill of 1988. This was the forerunner of the Brady plan which was first used by Mexico. The chief debt negotiator for Mexico at the time, Angel Gudia, suggested that I had done more to improve the economy of Mexico than anybody else by promoting that debt relief plan for Mexico.

So, I just want others to know that I have bent over backward to be of assistance to Mexico on their chief problem, the problem of debt. I would like to be of tremendous help to them in enhancing their trading relations with the United States, too. But I want to do it prudently.

Mr. Faux. Well, Mr. Chairman, you were——

Chairman LaFalce. You mentioned the word "debt," and I just had to get that on the record; please proceed.

Mr. FAUX. You were on the right track because it still remains a problem. The debt relief has helped, and, by the way, the debt relief is one reason that there has been an improvement in the Mexican performance over the last few years.

We think that North American cooperation and integration makes sense in the long term. We do not object to the principle of integration, but it needs to be set in a much broader framework. First, relief for Mexico's major problem which, as I say, is debt.

Second, we need to deal with the issue of capital flight from Mexico. Much capital has left Mexico that is owned by Mexican nationals, and there does not seem to be anything in this agreement or the administration's intentions to deal with that.

Third, there needs to be a harmonization of labor and environmental standards. We all understand that Mexico is a low-wage country and a poor country. Therefore, we do not expect U.S. minimum wages and complete U.S. environmental standards. But, clearly, there has got to be a better performance than exists now and a clear track for stronger protections.

Political liberalization, I think, is an important part of the process for reasons I mentioned before.

Finally, on this side of the border, we need policies that assure the successful adjustment of workers, communities, and industries including small businesses to this agreement.

The problem is that this kind of comprehensive approach cannot be accomplished with fast track simply because the administration has no interest in this broad a framework. So that only a rejection of fast track in my view can convince both Washington and Mexico City that we need to design an economic package that benefits both sides of the border.

There are objections that no agreement is possible without fast track. I do not believe that this objection is credible. Given the apparent political benefits to the Salinas administration in Mexico, it is inconceivable to me that in the end that they would walk away from any negotiation that would lead to integration with the United States. Ask yourself, "Where are they going to go?" To Europe? Are they going to get a free trade agreement with the Japanese? Unlikely. So, in the end we will have to work this out.

The much greater danger, I believe, is of a major policy blunder on the scale of those made in the recent past when the Congress was in one way or another stampeded into doing something quickly on the basis of dubious economic theories. The current fiscal deficit and the savings and loan scandals are examples of what happens when we move things like this through without proper consideration, time, and opportunity for amendments.

That is my statement, sir.

[Mr. Faux' statement may be found in the appendix.]

Chairman LAFALCE. Thank you very much, Mr. Faux. Our next witness will be Mr. Christopher Whalen, the senior vice president of Whalen Co.

TESTIMONY OF CHRISTOPHER WHALEN, SENIOR VICE PRESIDENT, WHALEN CO., INC.

Mr. WHALEN. Thank you, Mr. Chairman. In deference to the next witness, I am going to also summarize my remarks.

Before doing so, however, I wanted to comment on just a couple of things that have already been said and, in particular, draw attention to what I think my analysis, which is mostly financial and economic, has to offer in terms of the small business community's responsibility and concern for small companies in the United States.

The chief problem for a smaller enterprise doing business in this country, in addition to not having enough capital to invest to go to Mexico if it must because of competitive pressures, are things such as financial risk. Most small companies are not able to assess the currency and other risks involved with exporting to Mexico, especially if they do not have guarantees on their exports.

When I hear people such as Ambassador Hill going on about the great export boom in Mexico, I often wonder why she does not talk about how they are going to pay for it or the risks involved. This is something we never quite get around to.

Lower wages. I think people are going to be shocked within the next 12 to 18 months when Mexico again has to devalue the peso. The bad news is that wages are going to be lower relative to American wages than they are today. I think this is a process that is going to continue until you get basic, fundamental political as well as economic change in Mexico.

Mexico is essentially a feudal country with a modern leadership on top and to say that wages or other conditions in the working environment in Mexico are going to change before they have political change—that is, a move toward true democracy—is just a dream.

Finally, I would like to just say with respect to the studies cited earlier, that while I have not torn apart the ITC study, I have looked at it. It seems to me the Bush administration is emulating Mexicans in their ability to produce figures that tell the story they want to be told. It is just incredible to me that someone would suggest that you will see an increase in U.S. employment by opening the border with Mexico.

In terms of my own remarks, I would like to first point out that the chief issue here, and I agree with the gentleman who spoke before about political and strategic concerns, is politics first and foremost. The government of Mr. Salinas is our client. We support him. We finance him through various subsidies which are both apparent and not so apparent. The emphasis on a free trade agreement is, quite frankly, intended to preserve the political status quo in Mexico by deliberately obscuring enduring structural problems that hinder that country's recovery from a decade of crisis.

If you asked the average Mexican worker, who continues to see his wages eroded in real terms because of official price controls, if the crisis is over, he would certainly say no. You could talk to the Teachers' Union; you could talk to any number of organized labor groups in Mexico about this, if they could come up here. Most of them would not, I would add, simply because of the risk to them-

selves and their families of directly opposing the government in such a public form, especially before the U.S. Congress. The risk would be just too high.

Even major political candidates in Mexico are very shy about coming to this country because of the potential for "an accident." This, of course, calls to mind Mr. Manuel Clothier, the conservative party leader in Mexico who was killed when a truck ran head on into his car on a road he traveled his entire life.

Second, I would like to call your attention to the myth of reform. One of the arguments that the administration makes is that by having a free trade agreement we are going to cement in place reforms that have already occurred, and, yes; Mr. Salinas has done some significant things. If you look at Mexican history over the last 30 years, in relative terms, he has moved an enormous distance. But to say that the state sector in Mexico, which is really only comparable to the Soviet Union in terms of the degree of centralization, and inefficiency, and corruption; to say that this centralized apparatus has been dismantled, in particular, those industries which cost them the most in terms of subsidies, is both at odds with the facts and misleading.

I would draw your attention to the quotes I have in my remarks from Mr. Roberto Salinas Leon of the Center for Free Market Studies in Mexico City. Subsidies last year cost Mexico over $4 billion. This is mostly hard currency and is related to imported food, consumer goods, and what have you. Even gasoline and fuel oil, you might be surprised to know, cost Mexico over $1 billion in 1990.

A related issue, of course, is the peso. The reason that Mexico is going to run a $6-billion trade deficit this year is the peso is rather overvalued with respect to the dollar. This has been done to attract investment. While the internal inflation rate in Mexico is still around 30 to 35 percent, despite what you have from the United States and Mexican Governments, they are only devaluing the currency 4 percent a year. What this means is if you go in and buy stock on the Mexican stock market, even if the stock goes down slightly you are still going to make money.

Now, as you know, you do not get anything for nothing in this world, and the reason that they offer investors such an easy profit is that they need the immediate dollar cash-flow from new investment, in addition to loans from the World Bank, and loans from other multilateral agencies, to make ends meet. This, in effect, is an enormous Ponzi scheme, and what the Mexicans are trying to do is offer investors a relatively stable currency regime, attract new investment, use this to service their current and trade deficits, and hope that tomorrow something will turn up.

But the unfortunate surprise, and the fourth point I have in my summary, is that by about 1997 or so, the oil revenues supporting this game will run out. According to several dozen people who I interviewed for a piece on Mexican oil that ran in Barron's last year, which I have included in the back of my remarks, Mexico is going to be a net importer of energy before the end of the decade. As I already stated, last year they spent a little over $1 billion just on gasoline imports alone because of the lack of refining capacity.

I would like to spend the next 5 minutes or so talking about oil because I think, again, one of the main factors behind the adminis-

tration's push for free trade is the notion that Mexico is going to be a future supplier of energy to the United States.

Now, as we have seen in the Persian Gulf and indeed with the debate over drilling in Alaska, Mr. Bush places enormous emphasis on American access to oil. But I think that it is a fallacy to suggest that after 10 years of little or no new capital investment in oil production and refining capacity that the Mexicans are going to be in a position to not only serve export customers, but meet their own needs.

Mexico claims, of course, to sit a top some 50 billion barrels in proven reserves, although these have not been audited by an outside firm for well over 17 years. But developing these reserves requires an awful lot of capital. Most large multinational companies that you might be familiar with, Exxon and others, typically plow a third or a half of their annual income back into capital and new investments. It is a very capital intensive business.

In the decade since 1982, the Mexican state-owned monopoly PEMEX has essentially run on a current basis, that is, they took care of their bills. They did what was necessary to keep the thing running. But in terms of exploration, drilling, and other capital spending necessary to maintain, let alone expand, their ability to produce oil, there has been an enormous deficiency. Part of the reason for this is that about three-quarters of their gross revenues every year go to the state for subsidies to the other sectors of the economy. When you get through with the unions, and wages, and a little corruption here and there, there is not a whole lot left.

Now, right now official Mexican production——

Chairman LAFALCE. It is interesting to note that the subject of subsidies in Canada was left off the table.

Mr. WHALEN. Oh, yes; well, we are never going to talk about subsidies of Mexico, believe me.

Right now they are producing about 2.5 million barrels a day. By the year 2000, production in Mexico is going to be down to about 1.5 million barrels a day.

Because of population growth and because of the demographics of the Mexican society, demand for gasoline is growing at double-digit rates. Some people would say as high as 12 to 15 percent a year. Demand for fuel oil is also growing because it is a big economy. It is clear, to most people who have looked at this, from a financial perspective and also in terms of energy that Mexico has a big problem.

To this problem, the Bush administration has directed the Eximbank to provide loan guarantees to PEMEX, to finance exports of technology and services by U.S. oil firms to help the Mexicans develop oil. I have talked to the people at EXIM about this, including Mr. Machomer who knows Mexico very well, and I have pointed out to them that if you are going to issue medium-term loan guarantees in the amounts that we are talking about, which is about $6 billion over the next few years, the guarantees are probably going to be called. I do not see how the Mexicans are going to have the hard currency revenues to service these loans going out 10 years unless we see a surge of investment much larger than what is anticipated now.

Now, let me just add that when you have an economy like Mexico that is completely dependent on energy revenues for well over two, almost three decades, when these revenues disappear over a space of only 10 years, you have a serious problem because the rest of the economy has to restructure itself rather dramatically. All of the state industries that are still not being privatized today by the Salinas government are basically dependent on oil revenues. When this revenue disappears, eventually they will have to get around to restructuring or simply be closed.

But what is implied by this whole situation is that Mexico is either going to have to borrow more money to service or to provide capital for new investment in oil, or they are going to have to take capital from the nonoil sector of the economy, and there is just nothing there. This is a country that needs new investment desperately. I think the question of oil has to be foremost in the minds of Members of Congress when we are talking about this because, quite frankly, there is no oil for the United States or really for anybody else who is interested in buying Mexican oil if you look out 10 or 15 years. Domestic demand will claim every available drop.

Finally, I would just like to note that when you were talking about the Brady plan before, and this is one of my pet subjects, having been an analyst at the New York Fed, if you look closely at what happened with the Brady plan, we defeased $20 billion worth of debt with U.S. Treasury bonds. The cash flows, however; the interest payments were reduced slightly, but they still remained, and anybody who is familiar with present value knows that a couple years worth of interest payments is worth more than the principle because by the time we get that principle back 30 years from now, it is going to be worth 20 cents, 15 cents on the dollar in terms of today's money.

Chairman LaFalce. But that is private debt as opposed to public debt. You cannot engage in debt forgiveness. The Government cannot. They can simply attempt to encourage the financial institutions of the world to participate in some type of a debt relief program.

Mr. Whalen. Well, perhaps, but I would suggest to you that what has really happened here is that the banks have stepped back, and the World Bank and some other agencies have stepped up, taking over responsibility for new lending. If you look at the cash-flows coming from the World Bank, they are lending the Mexicans, and the Brazilians, and some others just enough to cover interest payments on existing credits. It is important to remember that World Bank loans have grace periods in the front years, so these countries do not feel the bite of the additional debt until you actually have to start servicing it.

When you get administration officials who actually come and appear before this committee and talk about things like this, you might ask them about the current cash-flow requirements for the Mexican debt, the total amount of borrowing, the state-sector companies, and quasi-private companies in Mexico they have undertaken in the last couple of years, bank CD's issued by nationalized banks, things like this. Because I think what you would find is that the reduced debt is, in fact, growing rather rapidly, and, again, this

is why I allude to the whole situation in Mexico as a rather large Ponzi scheme because it is only so long as the investment dollars come in and the new debt is still coming in that you can keep this thing going. In the end, next year or in 1993, we face the prospect of another default.

In my mind, Mr. Chairman, that is the whole point of free trade.

[Mr. Whalen's statement, with attachments, may be found in the appendix.]

Chairman LAFALCE. Thank you, Mr. Whalen. Our final witness will be Mr. Andrew Reding, a fellow with the World Policy Institute.

TESTIMONY OF ANDREW REDING, SENIOR FELLOW FOR HEMISPHERIC AFFAIRS, WORLD POLICY INSTITUTE

Mr. REDING. Thank you, Mr. Chairman, and members of the committee. I welcome the opportunity to share with you some observations on the present state of Mexican democracy, and to suggest how these affect the prospects for economic integration with the United States.

I shall divide my observations into three parts. First, addressing the question of how Mexico is governed, then examining how Mexico's form of government conditions attempts at economic reform, and finally suggesting how we might secure the benefits of free trade without unacceptable cause.

As I will be summarizing from my prepared statement and also from my article in the spring issue in the World Policy Journal, I am going to ask that both of those be included in the record if possible.

Chairman LAFALCE. No objection. So ordered.

Mr. REDING. Turning, then, first to the nature of Mexico's political system. I want to suggest that proponents of fast-track negotiation of a free trade agreement with Mexico are seriously exaggerating the extent and authenticity of reform in Mexico under the administration of President Carlos Salinas de Gortari.

In fact, if I may take a statement by my predecessor on the panel here, he said that Mexico is basically a feudal country with a modern leadership. I would like to amend that slightly and say that it is a feudal country with a pseudomodern leadership. I will show you why.

Despite a constitution that provides for multiparty democracy and separation of powers, Mexico remains a de facto dictatorship. Mexico's system of one-party rule is second only to the Soviet Union in longevity. Though limited to a 6-year term, the Mexican president exercises absolute powers during that period, controlling Congress, the Supreme Court, all electoral authorities, all governors, all major labor unions, the army, and almost all of the mass media through his leadership of the all-pervasive Institutional Revolutionary Party known as PRI for short. At the conclusion of his term, he even designates his successor.

Peruvian novelist and former presidential candidate Mario Vargas Llosa, who is otherwise sympathetic with President Salinas' economic objectives, recently characterized Mexico's political system as a "perfect dictatorship."

The perfect dictatorship is not communism, not the Soviet Union, not Cuba, but Mexico, because it is a camouflaged dictatorship. It may not seem to be a dictatorship, but has all the characteristics of dictatorship; the perpetuation, not of one person, but of an irremovable party. A party that allows sufficient space for criticism, provided such criticism serves to maintain the appearance of a democratic party, but which suppresses by all means, including the worst, whatever criticism may threaten its perpetuation in power.

While a democratic tide has swept the hemisphere, Salinas' "electoral reform" legislation has positioned Mexico firmly among the few antidemocratic holdouts. The president and his party maintain majority control of all electoral authorities, and the minister of the interior continues to chair the Federal electoral commission, a feature now unique to Cuba and Mexico among Latin Nations. While other Latin Nations from Brazil to Nicaragua now announce results on election night, Mexico retains its distinctive week-long delay between balloting and announcement of results, a period customarily used to alter unfavorable tallies. Were this not enough, President Salinas has strengthened the "governability clause" in the constitution, which ensures the ruling party an absolute majority in the Chamber of Deputies, even if the opposition wins two-thirds of the popular vote. To my knowledge, the only other Latin American country to have had such a "safety lock," as it is also known on its legislature, was Paraguay under General Alfredo Stroessner. When the dictator-president was removed, so was his restrictive legislation.

Twice in the past year, the Inter-American Human Rights Commission of the Organization of American States has found Mexico to be violating the political rights of its citizens under the American Convention on Human Rights, by allowing one party to control the electoral authorities, and by not providing effective means of challenging electoral fraud. Though Mexico ratified the Convention, and though ratified treaties are the "highest law of the land" under the constitution, the Salinas administration has dismissed the findings as unwarranted intrusions on Mexican sovereignty. This response, I would submit, does not speak well to the Mexican Government's intention to honor its obligations under international agreements.

I am now going to just signal that in some of the next remarks that come in my prepared statement, that I indicate there are important reasons why fraud is actually getting worse, has gotten worse, in the initial 2½ years of the Salinas administration. Because of the new modalities of fraud that are being used, and also because of the fact that Mexico is now virtually unique in this hemisphere in not having any kind of international observation of its elections, we can expect that in the August congressional elections the Salinas administration will easily regain two-thirds control of the lower House, through which it will be able to amend the constitution at will again, just as in the old days.

This is important, as well, because of what it is doing to the attitudes of the Mexican public toward the whole process of trying to effect change at the ballot box.

Electoral fraud is causing Mexicans to lose faith in the possibility of effecting change through the ballot box. Faced with the certainty that their votes will not be properly counted, opposition voters are staying home in ever greater numbers on election day. In last

month's elections in Morelos, less than one in four registered voters went to the polls, and there is reason to believe that a substantial portion of those ballots were, in fact, cast fraudulently.

The Mexican Government's aversion to democratic accountability has, I will now suggest, serious implications for economic reform.

The genius of the market is that it rewards productivity, provided the competitive playing field is kept relatively open and level. Thus, free markets require evenhanded enforcement of well-defined ground rules designed to protect the rights of all participants in the marketplace, and to limit oligopolistic concentrations of economic power. Such objectives, I would submit, are virtually inconceivable in an unaccountable system in which political power is itself so extremely concentrated.

In fact, many of Mexico's chronic economic problems are intimately related to its longstanding tradition of authoritarian rule. However different the Aztec tlatoani from the Spanish viceroys and postindependence dictator presidents that succeeded them, all maintained the common denominator of absolutist rule from Mexico City, through which they have repeatedly thwarted efforts at fundamental social change.

This helps explain why Mexico retains a premodern social structure, with one of the world's most unequal distributions of wealth and income. According to World Bank statistics, equalled only Brazil and El Salvador.

Ethnic Spaniards continue to dominate the country's political and economic life, neglecting rural Mexico, which is overwhelmingly made up of Spanish-speaking native Americans. The social structure has fostered a plantation mentality whose modern expression is the maquiladora, or low-wage assembly plant, that seeks comparative advantage in foreign trade by repressing the labor force rather than by investing in education and new technologies in order to raise productivity and create internal markets for sustained economic growth.

One cannot speak of a free market system where labor is not free. Mexican labor unions are controlled by the ruling PRI. The president or his subordinates routinely select labor bosses who are then confirmed in office by pro forma elections. Any attempt to form a democratic union responsive to the needs of the rank-and-file is perceived as threatening the whole system of social control, and is repressed by whatever means necessary.

Needless to say, such repression maintains artificially low wage rates. It prevents gains in productivity from being properly reflected in wages.

Because Mexico is not a democracy, the burden of paying its $100-billion foreign debt has not been spread equitably throughout the population. Denied both an effective presence in Congress and a free labor movement, the majority of Mexicans have been systematically denied representation or influence in the formulation and negotiation of economic policies. For that reason, interest payments on the foreign debt have, in effect, been made through a 60-percent reduction in the real wages of Mexican workers, and a comparable reduction in agricultural prices.

At the other extreme, Mexico's wealthy elite has actually profited from the crisis. This group has a disproportionate amount of in-

fluence in Mexico's political system for a couple of reasons. It is the only segment of society capable of buying any significant degree of influence. Its disproportionate share of the country's wealth also affords it effective veto power over government actions by the ever-present threat that it will transfer more of its assets abroad. Thus, until recently, the de la Madrid and Salinas administrations deliberately maintained domestic interest rates at levels well above inflation that was eroding wages. This policy staved off further capital flight and even caused some funds to return to Mexico. But these funds have not gone into capital investment. Given the opportunity to invest in safe, high-yielding government bonds, Mexico's upper class has had little incentive to invest in new plants and equipment. On the other hand, the high rates of interest on those bonds caused Mexico's domestic debt to expand at exponential rates, to the point that in 1989 more than three quarters of the government's combined foreign and domestic debt payments were for, of all things, domestic debt. Ironically, in the absence of political reform, economic reform has widened social disparities by redistributing income from the lower to the upper classes.

The disequilibrating effects of Mexico's political system extend to the valuation of the peso. As Chris explained earlier, since Mexican inflation is much higher than inflation in the United States, it stands to reason that the peso should be losing value in a proportionate way against the dollar. Yet a rapidly devaluating peso would undermine rates of interest on domestic debt instruments, and invite renewed capital flight. It would also invite the wrath of the country's middle class, whose standard of living is presently being sustained, in large measure, through artificially cheap imports. With the regime's legitimacy already in question, and its de facto alliance with portions of the middle class-based National Action Party at stake, it can ill afford to stick to its free market prescriptions.

Instead, the Salinas administration has been devaluating the peso at a tightly controlled snail's pace of about 3 percent per year. Inflation last year was at 30 percent, compared to about 5 percent in the United States. The resulting overvalued peso may have bought some domestic peace for the time being, but it has dramatically hurt Mexico's foreign trade accounts. The net result of keeping the peso overvalued while at the same time "liberalizing" the economy by lifting tariff barriers for imports has been to flood the country with imports and make exports less competitive. This helps explain why the 1987 trade surplus of $8.4 billion shrank to $1.7 billion in 1988 and became a $640 million deficit in 1989, and a $3 billion deficit in 1990; so much for the Salinas administration's goal of export-driven growth.

The combination of liberalized import policies and an overvalued peso has hit hardest in Mexico's already depressed countryside. The artificially cheap dollar has helped push the food import bill from $3 billion in 1988 to $4.1 billion 1989 and $5 billion in 1990. Last year, after tortuous negotiations, Mexico secured $1.6 billion in debt relief—a figure equal to about a third of its food import bill for the same year. Cheap imports have undercut domestic producers, whose costs exceed the price they can obtain for their commodities.

This outcome is no accident. Secretary of Commerce Jaime Serra Puche has timed the relaxation of import duties to coincide with domestic harvests in order to force agricultural prices downward as a means of controlling inflation in the cities. He has been so zealous in this objective that the government has imported Chernobyl-irradiated powdered milk from Europe and aflatoxin-contaminated corn from the United States. The net effect has been to buy time in the cities, where the government is more vulnerable to social unrest, at the cost of the further deterioration of Mexican agriculture.

The absence of genuine political reform hurts the economy in many other ways as well, undermining the very goals of liberal economic reform. Single-party rule leads to misallocation of resources as public funds are redirected to partisan ends. Repression diverts resources from needed capital investment and fosters a climate of instability that frightens away private investors. State revenues are eaten up by the corruption essential to the maintenance of the regime's system of vertical controls.

Corruption also stunts economic modernization by facilitating illegal, high-return enterprises that divert resources from economic development. By far, the most important of these is drug trafficking. Lured by large sums of money and virtual impunity, many of the country's top military and police commanders have forged lucrative ties with the international drug mafia.

Chairman LAFALCE. Mr. Reding, I know the Members would like to begin the question period——

Mr. REDING. I am just about done.

Chairman LAFALCE. OK, good.

Mr. REDING. I was just concluding. The absence of democracy not only distorts economic reform, but also erodes its base of popular support. If the majority has no say in the design and implementation of the reform program, and if the program creates distortions that benefit the few at the expense of the many, there will undoubtedly be strong opposition to economic reform. If Mexico's economic reforms are to result in a more efficient, productive, and equitable economy that is attractive to foreign and domestic investors alike, the country will need to have a fundamentally different political strategy—one based on broad consultation and negotiation, to ensure that a majority of Mexicans have a meaningful stake in economic reform and will remain committed to it over the long haul.

The balance of my remarks, I simply turn to some suggestions as to how we could try to address some of these issues from a practical standpoint. Thank you.

[Mr. Reding's statement, with attachment, may be found in the appendix.]

Chairman LAFALCE. Thank you very much. Mr. Ireland.

Mr. IRELAND. Thank you, Mr. Chairman. Just a few brief questions.

Mr. Bywater and Mr. Faux, you both referred to this trade agreement, and I have not seen any trade agreement. Maybe I have been left out of this. I thought that the purpose was to negotiate a trade agreement. Are you privy to a trade agreement?

Mr. BYWATER. Well, I think that is what they are up to. I think that is what we are here for. That is what the discussion is all about.

Mr. IRELAND. No; but you——

Mr. BYWATER. There is no finalized trade agreement yet.

Mr. IRELAND. Right.

Mr. BYWATER. We want to see a debate on the issue. We do not want to see this thing rushed through Congress, and that is why we are opposed to the fast track.

Mr. IRELAND. Let me ask you this. I mean, obviously, a fast-track kind of arrangement, as the chairman pointed out, is a rule of the House that has been with us for a long time in different forms. Do you think that any nation, I mean, forget Mexico for awhile, that any nation knowing our system would spend literally months, years, time, effort, and money negotiating with us if anything that they hammered out with the executive branch was then going to be modified by the 435 plus 100 Members of Congress? Do you think anybody in this complicated world would bother to negotiate with us?

Mr. BYWATER. Absolutely. I think there are many agreements that have already been negotiated without a fast track. I do not have a list of them with me right now, but certainly many such agreements have been negotiated. We have a democracy here, and I think that Congress should play a major role in any decision that is made. There are many, many open questions that we in the labor movement have that we would like to go through the Congress to have those questions asked and answered properly.

Mr. IRELAND. Well, if you did not like it you could—the idea that the Congress did not participate in the negotiations.

Fast track is a congressional rule. They can vote it up—and down if they do not like it. I guess I differ from you, and I doubt that we can put our fingers on any very complicated agreement like a GATT transaction or a free trade agreement that anybody would spend considerable time and effort on, knowing full well that it would be amended in some form and renegotiated by another committee of 535 Members of the American Congress.

I think that the point I want to make here is that negotiations would not be very serious knowing how that would work, and that is very clearly the whole point of why fast track is there. There is little sense in having that kind of negotiation.

I had another question for you, Mr. Bywater, if you would, and that is, are many of your members small business people? If you could—

Mr. BYWATER. Yes; let me explain.

Mr. IRELAND. I mean, you spoke almost entirely of big corporations, and things like that, and I wondered if you could just give us a tiny statistic on how many of your members are employed by small businesses.

Mr. BYWATER. Well, I would say—let me see. Outside of GE and General Motors, I would say probably about 60 percent of our union is based on small companies, what we call amalgamated unions. They get a number of little plants in an area together, and it is called one union. One local union.

Mr. IRELAND. Oh, yes; I understand that. But I am just——

Mr. BYWATER. About 60 percent of our membership, I would say. Perhaps close to 100,000 of our members are probably employed by small businesses.

As a matter of fact, I have testified before on what happens to small business. For example, in the defense industry much of the work that formerly was going to small business now has been transferred overseas and to Mexico. I am very familiar with small businesses and concerned about small businesses.

Mr. IRELAND. That is right. This is why I suggested to the chairman perhaps that we hear from some small businesses on the management side. To some extent—40, 50 percent, or whatever it is you represent—labor is on one side of it, and I think we need to hear some of the other small businesses—

Mr. BYWATER. Congressman Ireland, the small business cannot invest in Mexico to the extent that a large business can. They have difficulty, and, therefore, what happens is they just go out of business, and we do not want to see that happen. So, we are concerned——

Mr. IRELAND. I think the important thing——

Mr. BYWATER. By the way, here is a list of the multinational agreements that have been made without the fast track. Very important agreements like the Antarctic treaty, the atmospheric test ban treaty, et cetera. So, I will give you the list so you can have it. But you will see there are a number of——

Chairman LAFALCE. Would the staff please get that list because——

Mr. IRELAND. I think that the real point I am making about that and to evaluate the list, of course, is that the nature of the ones that you mentioned——

Mr. BYWATER. Yes; we are not talking about—you are right.

Mr. IRELAND. We are comparing apples and oranges here.

Mr. BYWATER. No, no; I am not—you are talking about GATT. I am talking about the Mexican-United States Free Trade Agreement.

Mr. IRELAND. Right.

Mr. BYWATER. There is a distinct difference. A vast difference between them.

Mr. IRELAND. There is a vast difference between that——

Mr. BYWATER. If you want to talk about apples and oranges, that certainly is an apple and orange. In fact, that is a cherry and a watermelon.

Mr. IRELAND. There is a vast difference between that and an oceanic agreement is what my point is.

Now, if you could address the fact, as I mentioned before, that additional trade generates substantial small business employment in other areas of the world when you have a free trade agreement. But let me ask you, and I have noticed that other than perhaps Mr. Hancock's opening remarks, and although he did not touch on it, there are those—I mean, labor has always been concerned about the number of illegal aliens coming into this country.

Mr. BYWATER. Yes.

Mr. IRELAND. We have not, despite all of our efforts in the Congress, have not stemmed that tide. There is certainly a very logical argument that any prosperity brought on the other side of the

border reduces illegal immigration. I take it from your testimony you do not agree with that.

Mr. BYWATER. Well, first of all, I am very familiar with maquiladoras. We have lost many, many jobs to the maquilas. But that has not stopped Mexican workers from quitting those plants and going across the border into the United States. That continues to happen. In spite of the big turnover in the maquiladoras, the companies employ the workers there because of the cheap rates. I am talking about 60 cents an hour that they are getting. It is just terribly low.

While I do not want to go into the whole story about the conditions, I think many of you on this panel probably are familiar with them. You know the conditions that exist down in Mexico with the workers and the maquiladoras. We are concerned about that. We are worried about those workers. We cannot stop the stem of illegal immigrants coming into the United States, but there is a law in the books now that companies are supposed to ask whether or not workers are illegal immigrants, and workers must prove their status in the United States.

Mr. FAUX. Could I—

Mr. IRELAND. Go ahead. I was just going to——

Mr. FAUX. Since some of this was addressed to me at the beginning, I wanted to make a couple of points. It is true there is no agreement, but the administration has clearly put out the outline of an agreement. They said some things are off the table, some things are on the table, and they have argued on the basis of an implied agreement that has got some constraints and some pattern to it. The administration is talking about that implied agreement when they say it is going to benefit the United States and Mexico, and we are also talking about that same general outline.

This point about immigration. Clearly the evidence is that the industrialization of Northern Mexico has increased illegal immigrations to the United States. One might have thought that the gap between the U.S. wage and the Mexican wage would have gotten smaller. The fact is that it has gotten larger. The maquiladora wages are lower than those in the rest of Mexico. So, the result of this induced growth that is totally based on exports to the United States has been lower wages and a larger gap between U.S. wages and Mexican wages.

The Secretary of Commerce of the United States and the Secretary of Commerce of Mexico had a meeting last year with potential U.S. investors in Mexico. It is cited in my testimony. At that meeting the materials given out stated that they expected the gap between U.S. wages and Mexican wages to get larger over the next few years. So, the notion that this industrialization is going to keep Mexicans there and dissuade them from crossing the border is not reflected in our experience and is not expected by the administration.

Mr. IRELAND. Thank you, Mr. Chairman. I would make only one further comment. I have great respect for anybody's bias. I have got my own biases, and I am sure you do, too. But the score here this morning has been clearly on a bias basis. "Four" against and "zero" for the agreement.

If it is possible, and I do not know whether it is possible, Mr. Chairman, to have additional hearings. We have touched more or

less on the economist/consultant type thing with the exception of Mr. Bywater, of course. We all know there are biases on the other side in that kind of community, and I would like, again, only if it's possible, to have us hear a little bit from the other side of the story, and then from small businesses themselves—again, from both sides, because I think that there are probably some pretty strong advocates that we can hear from on both sides of it.

So, that would be my only comment, and maybe it cannot be done, and I understand from staff that you did indeed try to get some other people here. Maybe we can help do that. Thank you.

Chairman LaFalce. Did you wish to comment on that?

Mr. Whalen. Yes; Mr. Ireland, let me state for the record that I am entirely in favor of free trade, but that is not what we are talking about here. We are talking about slave labor, without the right to elect your own political representatives, and to characterize this as anything akin to the United States-Canada relationship is ludicrous.

Free trade is beside the point. There are two or three other major issues in the United States-Mexico relationship which are far more important than this whole charade that the Bush administration is going through.

Mr. Ireland. But you see, Mr. Whalen, and we can stop there. You have in your testimony given your biases. I respect your biases. That is what you think, and I have the greatest respect for it. All I am saying is that there are those in your field of consultant world-around business who do not agree with you, and we need to hear that. We have not heard it this morning. My only point.

You are entitled to those bias. I respect that and we may not have time for another hearing. I do not know. Thank you, Mr. Chairman.

Chairman LaFalce. We tried very hard to get some others. We did have a commitment from the International Trade Commission, and I think it was only within the past few days that they pulled out. But I would have liked to have had the International Trade Commission here to participate with the members of this panel. They are the only ones who have conducted a study for the administration, so that they could have attempted to respond to the critiques that these gentlemen have raised. I think that could have been illuminating, and I would have liked to have had them at the same time.

Some comments have been made about fast-track authority and how difficult it would be for any country to negotiate with the United States unless we provided fast-track authority. There are a couple problems with this argument because I do not think we ever gave fast-track authority until 1974. So, it seems to me that before 1974 we always negotiated without fast-track authority. The 1974 Trade Act was the first time.

Second, a lot of countries do not like dealing with the United States because, unlike this country, they have a parliamentary system. Just about every country in the world has a parliamentary government, and we do not. We have this messy system; a separate executive branch and a legislative branch of government. The concept of separation of powers. The concept of checks and balances. It is terribly difficult for these other countries to have to deal with a

system of dual authority, to deal with both an executive and a Congress. But that is the United States of America, and by accepting fast-tract authority we are giving up a little bit of the constitution of the United States of America in that Congress gives up its right to legislate in the ordinary course of events.

But the proponents of fast-track authority appear unconcerned that we are dealing with a potential agreement involving such tremendous differences between the United States and Mexico. Maybe an appropriate analogy might be for the members of the party of the Bush administration to agree in advance to be bound for this year, and next year, and in futuro, to a closed rule on every bill that is reported out of committee, in advance, one that permits no amendments to be offered.

Mr. Poshard, I think you are next.

Mr. POSHARD. Thank you, Mr. Chairman.

Tell me, if you would, whomever wishes to answer the question; explain for me the most essential differences between what we have now in regard to our trade relationships with Mexico and what this agreement would do. We have companies all over the place moving to Mexico now. Three hundred American companies, I am told, within 35 miles right now of the United States-Mexican border, have located huge plants in Mexico. What will be the difference as you see it, at least, under this agreement?

Mr. FAUX. Yes; I will take one crack at it.

Chairman LAFALCE. I think it might be necessary before you answer that question to explain the maquiladora program and its applicability. Particularly, the special tariff arrangements applying just to the twin-plant concept.

Mr. FAUX. Yes; well, this is a 20-year-old program that creates a zone in the northern part of Mexico in which companies that use U.S. supplies components can manufacture goods and reexport them to the United States without duty and tariffs.

When it began, it was essentially a cut and sew operation. It was garment trades. Apparel is now down to less than 10 percent of the production of the maquiladora. Electronics is about 40 percent. Automobiles and automobile parts is about 20 percent. So, you can see that over the 20-year period production in this zone which has, as we said before, lower wages than the rest of Mexico, has gone up the value ladder. It is not just producing cheap apparel anymore. It is producing very sophisticated goods.

The Economic Policy Institute did a study of the differences between wages and productivity between the United States and third world countries including Mexico. We found that the reality contradicts the claim that wage differentials are compensated for by productivity differentials. That is, we may make 10 times the average wage of a Mexican, but we are 10 times as productive. The numbers show this is not true. We found, for example, that an auto plant in Mexico was producing at about 85 percent of the productivity of a plant in Detroit. But the wages were about one tenth. So, the experience of the maquiladora is the best basis upon which to chart what is going to happen with a free trade agreement.

As to your point about the essential difference. In my view, this proposed agreement is not about trade. It is about investment. We have already dropped trade barriers between the United States and

Mexico to the point where they are really insubstantial. A 5-percent tariff, or an 8-percent tariff, or something like that, is really not a major barrier.

The problem for the American large business community that is supporting this is this. Mexico has a history of being unkind to big businesses. Nationalization, expropriation, things of that sort. There is a very strong nationalistic aspect to the Mexican political culture. What this will do is codify the recent more liberal attitude of the Salinas government toward investments into an international treaty. The purpose here is to make sure that no future president of Mexico can undo what the Salinas regime wants to do now.

The effect of this on the United States will be to allow U.S. producers to invest in a big way in Mexico. Not just the things they have been doing in the maquiladora but in a big way. The big three auto companies will go down to Mexico and put the kind of money in there that will build a facility that will last 30 years. They are unwilling to do that now because there are some political risks. If this goes through, it will open up the floodgates for a transfer of investment from the United States to Mexico. That is where the big job losses are going to occur.

Mr. POSHARD. Let me ask you. Not to interrupt you, but as you folks see it, then, what we are facing is the potential transfer of American jobs into Mexico, and this will be for the purpose of creating jobs at a very low wage there. Slave labor, as you term it.

But this is not increasing the prosperity of the lower or the middle income classes of Mexico. This is, in essence, being drained off by the ruling class and maximum profitability for these people. This is not going to raise the prosperity level of the average Mexican worker so much so that they would not want to come to this country for instance. This is a scam you are saying. Is that right?

Mr. FAUX. Undoubtedly, there are people in Mexico who will make money out of this.

Mr. POSHARD. Yes.

Mr. FAUX. That is always the case.

Mr. POSHARD. Of course.

Mr. FAUX. But, again, if you look at the experience of the maquila, what you find is that industrialization ended up with lower wage rates, not higher wage rates.

The other point that both myself and Mr. Whalen raised about debt is also important. Debt is the big overhang on the Mexican economy, and unless we deal with that problem the average Mexican working family is going to be impoverished even more over the next few years.

Mr. WHALEN. If I might add, half of Mexico's population is under 18 years old. There a million plus workers entering the work force every year, so you have a vast supply, and if you believe that labor is mobile, then you have to treat the maquiladoras as essentially a buffer. He migrates north to Nuevo Leon. He gets a job for 6 months or a year, learns a little bit of English, becomes more acclimated in that vastly different part of Mexico compared to the south, and then he goes to the United States with a little bit of skills to offer. It is a stepping process.

What we are going to do with this free trade agreement is turn all of Mexico into a large maquiladora essentially. But I would sug-

gest to you that a lot of the activity will remain in the north simply because there is no communications. There are no rail lines between the valley of Mexico and the border.

Mr. POSHARD. Based upon what you folks say, then, with all due respect to the gentleman on the opposite side of the aisle, why would American business be against this if they are all part—if we are becoming more and more a part of multinational corporations which have no loyalty to any nation except that nation where they can maximize their profit, why would American industry or business, why wouldn't they be for this? My gosh, if they can move a factory down there and make 1,000 percent a year, why would they not be for it?

Mr. BYWATER. I deal with GE and also General Motors. Primarily, in our union, GE is the main corporation we deal with. In fact, we have negotiations coming up in June with them. I am the chairman of the CBC for around 65,000 members from 13 unions that negotiate with GE. GE has located down in Mexico, as you know, a number of their plants. The same as General Motors. The work goes down there, and our people lose their jobs. I would like to emphasize what happens to the workers here in the United States rather than what happens in Mexico.

The Mexican workers have not benefited from the maquiladoras. I do not see that any of them become wealthy as a result of working in those plants. The same thing happens with the American workers who lose their jobs. I can tell you, and I know of hundreds of cases, and obviously there are millions around the United States, where a fellow is working in a shop—General Motors, or in GE, or some of the others—and he loses his job. He winds up looking for another job. If he does get a job, it is a job that is probably paying half of what he was getting in the plant where he was working before. His wife, then, who may not want to work, winds up working. The kids in the family sometimes wind up working in order to bring enough money home for the whole family to survive.

We are going backward in this country in terms of the middle class. The middle class is going down constantly. It is being eroded all the time. I do not know why people are not upset about it. I am terribly angry about what is happening, and I just see more jobs disappearing all the time. If the Japanese come into Mexico, they are going to build the whole car in Mexico and ship it to the United States. That will be another problem we will have.

Chairman LAFALCE. Mr. Poshard has asked the question why wouldn't the business community be in favor of it?

Mr. BYWATER. They are in favor of it, obviously.

Chairman LAFALCE. I am going to attempt to answer that. I think you have to distinguish between big business and small business. For example, I went to the small business community. I went to the head of the NFIB, the National Federation of Independent Business, and I said, "Well, what do you think about the proposed free trade agreement?" He says,

> Well, I really do not know. We have got a lot of qualms about it. There are all these political nuances and the administration would like us to support it. We are polling our members to see what our members think.

Chairman LAFALCE. I do not think that poll has come back yet.

But, on a practical level, I have had a little experience with the maquiladora process with both small and big business."Big business" per se, is not a U.S. corporation. It is not even a multinational corporation. It is a "transnational" corporation. It owes its allegiance not to the United States. It owes its allegiance not to three or four countries where it does business, and, therefore, it is multinational. It is transnational. It transcends national boundaries. It is interested in the corporate bottom financial line, and how can you maximize that line? That is the primary concern.

So, we do see the very largest businesses, not only in the United States but the very largest businesses of the world, very interested in this agreement because they understand the difference between making an investment in a country where you can pay somebody 60 cents an hour as opposed to an investment in a country where you would have to pay somebody from $15 to $20 an hour. That gives you a tremendous comparative advantage, particularly if you continue to have free access to that country whose other workers are making $20 an hour so that they can buy the products that you make.

Other countries feel the same way, too. I mean, somebody from Japan might be very interested in gaining access to the American market by establishing a plant in Mexico.

So, if there have been studies that have been made about the impact of this, and they have not considered investment decisions, the study is useless. It is absolutely worthless. That is the chief ingredient in a study. How is it going to influence future investment decisions now?

If a company presently has a plant in existence, the best way to deal with the troubled plant, according to some people, is not to work out the problems of the plant, but close it down. If you close it down and are able to open up a new plant on the border of the United States, or anyplace in Mexico, and while still having full access to the U.S. market, maybe that is what you should do.

Now, if you are a small business and you have been living around that big business; if you have been feeding them; if you have been supplying them; if you have been servicing them; you are not a transnational corporation. You are not even a U.S. corporation. You are a local corporation. You live there. You have lived there your entire life, and your family has lived there, and your kids live there. You are not a mobile type of person who expects to transfer from one place to another every 3 years or every 5 years the way a lot of corporate American does. This is your life in this community. You were born here, and you want to die here. You want a full life, too, et cetera.

That is the small business person. That is the person who is being adversely affected either by the plant that closes down, the plant that is reduced by half, or by the plant that is not built. That is the impact on the small business community that I am concerned about.

It is a difficult one to come up with economic data on. I wish I had some. I wish there were somebody in the world who had some economic data on this. They would be before me today. If anybody knows of anybody in the world who has this type of economic data, tell me. I will bring them before the committee.

Mr. FAUX. Yes; I think that is an excellent description of one of the big differences between small and large business.

In terms of the public policy question, we have three categories of business. One is the large transnationals who can go anyplace on the globe and are doing it now, as you suggest. Then, on the opposite extreme, there are the small businesses. These are the people who are too small to move or just want to stay in America and cannot imagine themselves going off to Mexico or anyplace else. This group will stay here.

There is a vast number in the middle, and what we want to do with good public policy is to affect their decisions about the future. What we want them to do is to solve their competitiveness problems by increasing investment in America, by increasing innovation, by finding better products and better ways to produce here.

If this proposed FTA goes through, it will bias the investment in the other way in the direction of solving their competitiveness problems with low wages. It is that large group in that middle that we are trying to influence in the right direction.

Mr. POSHARD. Mr. Chairman, I would like to make one more comment, if I may.

Chairman LAFALCE. Sure.

Mr. POSHARD. Pardon me for interrupting, Mr. Whalen, but just complete the scenario for me. Let me tell you where all of this stops in terms of the small businesses and other businesses in my district that contact me who are in favor of this.

It stops with the admonition to me, "If you do not favor this, you are cutting out the American consumer because the bottom line is if we get a free trade agreement with Mexico the people in your district are going to be able to buy clothes cheaper. They are going to be able to buy other products cheaper. If you are for the American consumer, you ought to be for a free trade agreement with Mexico." Because, bottom line, it takes less money out of their pocket. Now, how do we educate——

Mr. BYWATER. If they have a job.

Mr. POSHARD. Wait a second. How do we educate the American consumer to take that one step further to say, "But if everybody in this country ends up making $3.35 an hour in the Wal-Marts and K-Marts of the world, who is going to buy those products?" How do we do that? Because that is what we are coming to.

Mr. WHALEN. You are going to educate them, unfortunately, I think, through experience. We have experienced on the margin the competitive effects on the U.S. labor force of other nations and their lower wages, their lower production costs. But Mexico, I think, represents a quantum leap in the difference between, say, manufacturing in Thailand or Taiwan and manufacturing here, because it is not just wages. It is the all in costs.

I can speak to this as someone who helps cut payroll every 2 weeks. There is no FICA. There is no environmental costs. There is none of the other intangible indirects that a U.S. employer has to pay per unit of labor in this country. You can dump the waste raw in the backyard. There is very little other costs in setting up a facility in Mexico. You see what I am saying?

Now, if we do not attack the problem on the Mexican end and raise wages and raise these other costs, if you will, of doing busi-

ness, there then it is going to be tough to compete because the big company. He can move some jobs to Mexico and keep some here to restrain the political heat. But a small company cannot do that. If you are faced with the decision of either moving down closer to the border to keep next to the big plant that you have the relationship with or closing, I mean, that is it. You have got to do it.

The difference in costs is just so vast that I do not think public policy focuses on the United States and, in all deference to my colleague, is going to do a damn bit of good. We have got to change the Mexican end and make them more like us——

Mr. POSHARD. When you have a combination between super maximum profits for business and low costs for goods for consumers, that is a powerful combination for us to fight.

So, you are saying, "Do not try to fight it on this end; fight it on the other end?"

Mr. WHALEN. Yes; I think if we try and convince people that, "Well, we should not buy that television set or that radio at a cheaper cost because you are going to lose your job in 6 months or a year as a result." Well, they are not looking at 6 months or a year. They are looking at right now, and they want that radio.

Mr. FAUX. Let me disagree a little bit on that. It is true that you cannot expect American consumers not to go to the discount house and get the cheapest price because no American consumer believes that his or her decision is going to make a difference in the great flow of exports and imports in the world.

But the political question is different. It is not the consumer groups who are here lobbying to persuade you to vote for this. It is not the Consumer Federation of America and those groups. It is the large producers, and I think that to some degree Americans understand this problem. The polls show me that Americans understand that they are losing jobs. That the good jobs are not there anymore, and it is because of imports.

The problem is that they do not see as individual consumers that they have any choice. They walk into the store, and there is the domestic product for $5.00 and the imported piece for $3.98, and they are going to buy the $3.98. But I would not equate that with a consensus on public policy. That is, I think that if the free trade agreement with Mexico was voted on in a national referendum, that it would be voted down because people understand that the few pennies you might save with cheap Mexican goods are not worth the jobs and the undermining of the American economy.

I think they are there. Unfortunately the political dialogue in Washington may not be there, but I think people understand the issue and, if given a choice, would vote against this.

Mr. POSHARD. Thank you, Mr. Chairman.

Chairman LAFALCE. Mr. Andrews.

Mr. ANDREWS. Thank you, Mr. Chairman. I have a few questions; three questions, actually.

One of the greatest concerns of all that I have heard from the critiques of free trade authorization is that it gets down to the basis question of fair trade and being able to compete with others fairly. Issues such as wage rates, environmental standards, health and safety standards in the work place are all cited as examples of

how such an agreement would not be fair because of the difference in the standards.

Now, no one has seen the specifics of an agreement. We are all speculating. Some have more information, apparently, than others. But, from your understanding of what is being contemplated, is there any suggestion that wage rates, environmental standards, health and safety standards of the work place in Mexico would in any way be addressed in any agreement that is being contemplated?

Mr. BYWATER. I can speak from the viewpoint of labor because I am on the AFL-CIO executive council. We do not think those things will be addressed. When they talk and make promises about the environment—they are going to correct things—well, they have had a long time to do something about it. There are some laws on the books now in Mexico that just simply are not enforced, and they will not be enforced, and, frankly, we do not trust the Government at all. That is the way we feel.

I would agree with the gentleman on the end there when he says Mexico is really a dictatorship.

I was down in Mexico with the AFL-CIO. I was part of a small committee that went down there and met with the Mexican trade unions. Those trade unions are not interested in anything but working on behalf of the government. That is about what it amounts to.

That same union, I do not want to name them, but that same union has a sweetheart agreement with some companies; an under-the-table agreement that, in effect, says that if the plant is organized by some other union, they will be recognized automatically without the people voting for it.

There is no choice at all. The workers do not have any choice. The workers are totally depressed. They feel it is hopeless, and you are dealing mainly with a lot of young kids who go into those jobs, and there is no one who really represents their interest. The situation is absolutely horrendous.

But, again, I just want to say that the economy of our country, in my opinion, is going to be badly hurt by this. I heard all of this stuff about "high technology." "High technology is going to take care of everything." I remember an argument being raised by a Congressman I happen to like very much. He claimed "Oh, how good. It is going to be great for Massachusetts; high technology." Well, where is the high-technology work now? Where is it in California?

All the high-technology work today has been reduced to very little here in the United States. We transfer it overseas. That is where it is. We do not have those jobs. I do not know where kids who come out of high school and do not have a college education are going to get good jobs in the future. It seems hopeless.

I recall, when I worked in a shop, I thought I could send my kid to college, which I did. I do not think the kids today, working in a shop, can send their kids to college. I do not think they are going to have the money to send their kids to college.

It is a terrible, terrible situation. I think we have to look at the whole economy of the country and where we are going in the future. We are going backward. That is the way I see it.

Mr. FAUX. If you look at the history of this debate, it tells you something about the intentions of the administration. Clearly, the heart of the matter is this: Does Congress trust the administration and its negotiators enough to give away its constitutional powers in this question?

If you look at the history of the debate, first the administration said, "All we want is a trade agreement. We are not concerned about worker safety. We are not concerned about the environment." Then people began to say, "Hey, what about worker safety? What about the environment? What about these wage differentials? What about the pictures of the pollution that is coming out of Mexico?" Then the administration said, "Well, we will take care of that. The Salinas administration is now promising this and promising that."

At one point they said, "Yes; we would like to do something about that." I think that is still their position. "But we will do it in a separate set of agreements; not part of the treaty." They may, at some point in the discussion, be forced to include into the treaty or promise to include in the treaty some of this environmental stuff.

But the most important thing is to look at their attitude. Their attitude, for example, about workers adjusting to this agreement is reflected in the fact that their mark for trade adjustment assistance for this fiscal year is zero.

So, given their intentions, given the fact that as we were talking, I think, before you came in, the security——

Chairman LAFALCE. What is the amount of economic adjustment assistance that has been provided for the European community because of the economic dislocation?

Mr. FAUX. Oh, I do not know the precise answer, but you as a——

Chairman LAFALCE. Isn't it about $60 billion?

Mr. FAUX. Yes; and in most European countries, unemployment compensation lasts for 2 years. It gets to be 80, 90 percent of your salary. Here it lasts for 6 months. They have a world-class retraining system in advanced European countries that we cannot come near here. In terms of retraining workers, the difference between the United States and the European community is like the difference between a third and first world country. We have, really, no worker retraining. So, there is a whole series of things that they do to modify the impact on people and help them adjust.

The administration has historically been opposed to these kinds of efforts, so that the promises are not worth much. Then finally, there is the question of intentions on the Mexican side. As others here have been asking, how can you trust the promises of the Salinas administration where there is no pressure coming from those people in Mexico who represent environmental and labor interests because the Mexican Government controls labor, and there is no environmental movement there? The pressures that are really effective in a democratic society do not exist. So, we are talking about paper.

I saw a session of the Canadian parliament a few weeks ago, actually, and I think the Canadian-United States Free Trade Agreement was a benefit to us. I think we really got something out of that deal. But the Canadians do not think so anymore, and a

member of parliament stood up and challenged the Commerce Secretary of Canada. He said, "When this started, you promised there would be so many thousand jobs created because of exports in Canada. I have got a list of all of the plants that have been shut down because of the free trade agreement with the United States. Show me where you have created the jobs that you promised." Silence from the Minister. It was very funny. He said, "Show me one job that you have created out of this," and they could not show them any jobs.

So, we know about promises. We all know about campaign promises. We know about political promises, and to accept promises out of this government in Mexico is just suicide.

Mr. REDING. If I may follow through on that.

Chairman LAFALCE. I just want to say one thing. I promoted the United States-Canadian Free Trade Agreement despite labor opposition, although there was clearly more minimal opposition.

Mr. BYWATER. Not like this.

Chairman LAFALCE. Not like this. No comparison. No comparison whatsoever.

I supported that agreement because I thought it would be a net benefit for both countries, and I was sure it would be of benefit for the United States. But this is the exact opposite. I know this will be of benefit to the Mexicans, and I want to be of benefit to them. But at what expense to the United States? At what expense? It is potentially too horrendous and certainly too open-ended to proceed blindly and to forfeit Congress' ability to offer amendments.

Mr. REDING. Yes; I was going to say—

Chairman LAFALCE. Even if we Members of Congress wanted to offer amendments regarding economic dislocation, we could not offer amendments and say, "You must pass these additional unemployment benefits as part of the trade agreement." Under fast-tract procedures you could not package it together.

Mr. REDING. Yes; I was just going to say that, as the lone political scientist on a panel of economists, I wanted to emphasize that even if we could get both the Bush administration and the Salinas administration to agree to include in the free trade negotiations the issues of common environmental standards, of occupational health and safety standards, and of labor freedoms, we would still be faced with a very real problem. We would have these on paper, but we would still have the problem of implementation. How do you make such standards enforceable?

There are two ways you can deal with that. One is to create a supernational agency; a trilateral agency between Canada, the United States, and Mexico that is specifically granted powers of enforcement.

The other means, which I think is at least as important, is to confront the question of Mexican authoritarianism. We should recognize, as did the Europeans with Spain, Portugal, and Greece, that to have any kind of internal enforceability you are going to need an accountable system in Mexico, and that is going to have to be in some form or another a democratic system.

What is the best way of achieving that? As we have seen recently in the hemisphere in country after country—recent examples include Chile, Nicaragua, and Haiti—the only way to counter a prob-

lem of electoral fraud or perceived electoral fraud, and bring people out to vote in those countries, and create a democratic process is by insisting on effective international observation. I am not speaking of supervision, but of observation of elections. By that I mean by the United Nations and by the Organization of American States, which have specialized agencies that do this all the time now and have done so in virtually every other country in the hemisphere with the exception of Mexico, which is ironic as we are——

Chairman LaFalce. There are much freer elections in Nicaragua, El Salvador, and Chile, et cetera, than they have ever had in Mexico.

Mr. Reding. Incomparably. The only country I could compare with Mexico in terms of its electoral record is Panama under Noriega.

Chairman LaFalce. We do not know this in the United States.

Mr. Poshard. Is that right? Is that really true?

Chairman LaFalce. Yes, yes; it is really as far as——

Mr. Reding. If you are interested, I have extensive documentation I could provide you that will substantiate that.

Mr. Andrews. I do not want to prolong this. As a matter of fact, let me just say that from all that I have heard in this testimony, the question that keeps coming in my mind is, "What is the hurry? Why do we need this fast-track authority? Is anyone suggesting that we will get a better agreement with fast track than if we allow the Congress to take a look at the agreement and make amendments?"

Chairman LaFalce. Does it have anything to do with financing the reelection campaign of President Salinas?

Mr. Whalen. Well, yes; ironically that is true, but look at it this way. We should be in a hurry. We should be in a desperate hurry.

But even if you do not have a free trade agreement you still have a problem with respect to erosion of wages and just the general movement of people into this country looking for some kind of livelihood.

But we should be in a desperate hurry to address the political questions and also to persuade the Mexican Government to really change some of their basic economic structures. But——

Chairman LaFalce. But it seems that we are in a weaker position to do that with fast track.

Mr. Whalen. Well, no, no; if you would refer back to the testimony I gave before Chairman Gonzales' Banking Committee last August and read about the degree to which we subsidize and provide credit facilities, including through the Federal Reserve Bank of New York. The Central Bank of Mexico has a $700 million credit line there. It is the only country on the list, by the way, that is not AAA rated.

You realize we have great leverage if we would just say no. If we would tell the people at the World Bank, "No more project loans," that are, in fact, structural adjustment loans disguised. No more EXIM bank credits until you stop the subsidies going to the rest of the Mexican state-sector. If you did that, you would force them to change because there would be no money.

See, if you look at the history of this thing through the 1970's, first there was commercial bank loans. More recently it has been multilateral credits from the various agencies.

American taxpayers are subsidizing this. If you want to look at it in really a big picture term, your American worker not only has to compete with these people directly but indirectly because his tax dollars are going to go for the next replenishment of the World Bank or going to make good on a potential loss at EXIM. It is all the same. If you take this as a whole, we have enormous leverage. But the people at the State Department have decided that it is better to have this current group in power than it is to see the left win in Mexico in a free election.

Regardless of what you think of Mr. Cardenas and his family's history. Of course, his father threw the oil interests out of Mexico in the 1930's, he wins. So, at some point, I think we are going to have to go back and look at the lessons of Cuba, Nicaragua, and the Philippines and say, "Do we support democracy?" Obviously, in our case, that has provided great prosperity for our people. Or do we support authoritarianism and thuggery? As far as I am concerned, that is the chief question which, of course, no one is talking about.

Mr. ANDREWS. Mr. Chairman, I want to compliment you and thank you for the opportunity to listen to this panel. The heat is being turned up on this issue, and I have heard more information from the administration's point of view, more arguments from the administration's point of view in the halls of Congress than the other side quite frankly. The heat is definitely turning up, and, in some of our local publications, we have been seeing a lot of arguments that positions and profiles this issue, reflecting the assumptions and perspective of the administration.

So, I think this, in fact, provides us with balance, Mr. Chairman, and I know Mr. Faux and I have worked together in the past. The Economic Policy Institute has provided me, as a new member, with tremendous information and background on economic issues, and I am happy to see him here. But I am also happy to meet the rest of you, and I want to thank you all for your contribution, and, Mr. Chairman, I think this helps to bring balance to this discussion.

Chairman LAFALCE. Well, thank you. As you know, it is necessary to bring balance, too, because we have a chairman of the Senate Finance Committee—Senator Benson from Texas—whose State has benefited from the maquiladora process. He is clearly bent on seeing the fast-track proceed. We have a speaker whose philosophic orientation is in favor of the concept of free trade, and we have a chairman of the Ways and Means Committee, and a chairman of the Subcommittee on Trade of Ways and Means who have a philosophical orientation in that direction.

That is my philosophic bent, too, which helps explain why I have not been endorsed by labor, unfortunately, because of votes on the textile bills in 1986, 1988, and 1990.

But I read these stories in the paper that the democratic party has sold their soul to the labor unions on an issue like this. What do they mean? I mean, this is crazy. We are not dealing with Israel. We are not dealing with Canada. We are not dealing with GATT negotiations involving 100 countries. We are not dealing

with some emergency situation that requires that we have to do something. We are trying to negotiate a North American agreement as a replacement for GATT negotiations that appear to have failed.

I just smell something so foul about all of this. The more I look at it, the more I fear that this may be a deal between the Bush and Salinas administrations, where we clearly have decided that it is preferable to have Salinas in power than either Cardenas or a representative of the conservative party. Perhaps this is the best way to do it.

Insofar as the large business community, the business round table, if you were chairman of a transnational corporation, you do not want any barriers from any country on anybody at any time. You just want to be able to manipulate your branch offices. You have a branch office in the United States; you have a branch office in Mexico; you have a branch office in the Philippines; a branch office in Korea; and your headquarters is your airplane.

But let us slow this down a little bit. We are not talking about an agreement with a small, little country. We are not talking about a country of 3 million. We are not talking about a country of 20 or 25 million. We are talking about a country of more than 85 million people. That is a lot of people. Would we be talking about a free trade agreement with the Peoples Republic of China? Would we be talking about a free trade agreement with Brazil? Brazil is a little over 100 million, right?

Why not? Why not apply fast-track authority for free trade agreements with any country in the world? I mean, should we distinguish those countries that we give fast-track authority to or not? If we should distinguish, what should be the criteria? Should it be, well, some basic similarity in culture? Some basic similarity in economics or socioeconomic conditions? Some basic similarity in political customs and practices? Yes; that sounds fair.

But it would seem to me that if you have a country with fundamental dissimilarities and disagreements in political traditions and socioeconomic conditions, that might be the last one you want to go to and say, "It has got to be under a fast-track concept." Clearly, this might be a country that you want to be of assistance to, but usually the way of assisting developing countries is not by entering broad free trade agreements with them.

Certainly not having one of your least developed and your most developed countries enter into a free trade agreement without consideration of any adjustment factors whatsoever.

Clearly, there is a different perspective on this issue that many others share, I am sure. But I wanted to bring this perspective out today. I think Mr. Ireland has made some terrific ideas, and just might have a dozen hearings on this subject.

Mr. Poshard. Mr. Chairman, may I ask unanimous consent to enter a opening statement in the record, please?

Chairman LaFalce. Without objection. So ordered.

[Mr. Poshard's statement may be found in the appendix.]

[Whereupon, at 12:15 p.m., the committee was adjourned, subject to the call of the Chair.]

UNITED STATES-MEXICO FREE TRADE AGREEMENT: THE SMALL BUSINESS PERSPECTIVE

MONDAY, MAY 20, 1991

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The committee met, pursuant to notice, at 1:15 p.m., in room 2359–A, Rayburn House Office Building, Hon. John J. LaFalce (chairman of the committee) presiding.

Chairman LAFALCE. The Small Business Committee will come to order.

President Bush's promise to initiate free trade negotiations with Mexico has generated a significant policy debate that will continue long after this week's vote on extension of fast-track authority.

Congress will continue to hear appeals from business organizations and coalitions which claim to express the support of American business for a free trade arrangement. But this support is far from complete. Virtually absent in the debate has been any broad or consistent expression of opinion from U.S. small business.

Efforts to characterize the debate over free trade as a battle between business and organized labor ignore some profound differences that exist within American business on this issue.

The great majority of the businesses advocating a Mexican trade agreement are large corporations. Many are U.S. firms only to the extent that they are headquartered in the United States.

In reality, they are "transnational" corporations whose operations have the ability, and the clear intention, to go anywhere in the world to pursue business opportunities that provide competitive advantage and enhance corporate profits.

In contrast, smaller U.S. businesses are clearly ambivalent on this issue. On the one hand, there is some awareness among small business owners of the potential for marketing products and services abroad, and, clearly, the most contiguous places to investigate export opportunities are Canada and Mexico.

On the other hand, a broad free trade agreement with Mexico could have a significant adverse impact on the operations of small businesses in at least two key areas.

First, U.S.-based small businesses would confront intensified competition for direct market sales and supplier contracts from low-cost Mexican competitors and from Mexican-based U.S. and foreign producers.

Second, the decisions of large corporations to transfer existing operations to Mexico, or to invest in new facilities in Mexico rather

than in the United States, not only threaten existing small business sales and supplier contracts, but eliminate the possibility of future contract and market opportunities.

This broader impact of a free trade agreement on small business operations is of particular concern to me. In many respects, small businesses are at the mercy of decisions made by large corporations. The plant that is closed, that is operated at half capacity, or the plant that is not built, all affect the operations and, often, the very existence of numerous small businesses.

Increasingly, U.S. corporations determine that the best way to deal with a troubled plant is merely to close it down. What happens to the small company whose sole purpose has been to service or to supply that plant?

These companies cannot relocate to Mexico; many are unable to switch to other contracts or products. Most of these suppliers simply go out of business. This has become an unavoidable fact of life for U.S. small business.

The purpose of today's hearing is to initiate broader discussion of the interests and concerns of small businesses with regard to the proposed free trade agreement with Mexico. The committee has sought testimony from a variety of small businesses regarding the potential impact of a free trade agreement on their current operations and potential sales.

The committee has also sought testimony that will begin to identify potential difficulties for smaller businesses in conducting business in Mexico.

Today's witnesses include representatives of small business firms engaged in manufacturing, automotive parts, textiles, and oil distribution. These include Alan G. Lewis, president of Gerber Plumbing Fixtures Corp. of Chicago, Illinois; John Higbie, president of AES Interconnects of Avon, Indiana; Mac Cates, CEO of Arkwritght Mills, Spartanburg, South Carolina; and David Black, vice president and general counsel for Arriba, Ltd., of Houston, Texas.

Additional witnesses, invited at the request of Representative Ireland, the committee's ranking Republican, include: David Padilla, president of the Manuel Lujan Insurance Co. of Santa Fe, New Mexico; Ignacio Urrabazo, Jr., president of the International Bank of Commerce, Laredo, Texas; and Thomas Watson, president of Watson, Rice & Associates, Washington, DC.

If I mispronounced any of your names, please correct me. Don't tell my wife. My wife has a master's in Spanish. She is always correcting me, and she hopes I will improve my pronunciation.

[Chairman LaFalce's statement may be found in the appendix.]

Chairman LaFalce. Congressman Ireland.

Mr. Ireland. Thank you, Mr. Chairman, I was impressed with all your pronunciations.

Thank you, Mr. Chairman, for your willingness to hold today's hearing so that the committee can continue to explore ramifications of a United States-Mexico Free Trade Agreement. Your interest in this subject and the inconveniences you suffered to be here with us today are appreciated, and I understand they are not small.

Let me also offer a warm welcome to the small business owners and representatives who will be testifying today. Some of you trav-

eled rather extraordinary distances to be here so that Congress can better understand and appreciate what free trade with Mexico holds in store for the 18 to 19 million small businesses in the United States.

All the witnesses should be commended for their extra efforts to prepare for the hearing on such short notice. I thank you for your eagerness to do so.

Since outlining my views at last month's hearing, and since I want to be sure we have plenty of time to learn from our small business owners, I will keep my opening remarks very brief. Let me reiterate a few quick points, nevertheless.

In the last 4 years, or since Mexico joined GATT, the general agreement for trade and tariffs, U.S. exports to Mexico have more than doubled. Manufactured goods exported to Mexico account for a startling proportion of this increase, jumping from $10 billion in 1986 to $24 billion in 1990.

A fair free trade agreement with Mexico would accelerate this encouraging trend and would offer new profitable export opportunities. This, in turn, may well help them to develop a taste for and an expertise with exporting goods and services that will lead them to other markets around the world. Let me quickly underscore those two very key words, fair and free.

As I noticed last month, I firmly believe our trade policies should seek to open markets wherever possible. America's small business owners are scrappers by nature, and with the savvy products and services they offer, I am confident they can come out on top, given the opportunity, and that is what free markets provide, opportunity.

Markets must be free in both directions without hidden tariffs or other subject barriers. I think we can reach an agreement with Mexico that is both free and fair, and that our willingness to pursue the first and demand the second will be measured in new exports, new jobs, and a rejuvenated economy for all Americans.

I won't keep us any longer from hearing what all these small business owners have to say to their committee. Thank you again for your interest and your hospitality to these small business folks.

Without objection, I have a few items I would like to insert in the record for edification. These include a couple of articles, one by Henry Kissinger and Cyrus Vance. You have to admit, that is an unusual combination.

Another article in the Nation Journal by Kirk Bicker, that gives a pretty balanced discussion, I believe, of the small business aspects of the free trade agreement, and a column by Robert Zoellick from the State Department concerning the proposed Mexican Free Trade Agreement, and also from Mr. Zoellick, who is Under Secretary for Economic and Agricultural Affairs at the State Department, a rather voluminous testimony, since he could not be with us today.

Chairman LaFalce. Without objection, so ordered.

Mr. Ireland. Thank you, Mr. Chairman.

[The information may be found in the appendix.]

Chairman LaFalce. Do any other Members wish to make opening statements?

Mr. Andrews. Thank you, Mr. Chairman. Thank you for arranging for this hearing which is an extraordinary time limit. My office

is filled today with letters and telephone calls from people on both sides of this issue, and this hearing nicely supplements the written material we are getting. I thank the members of the panel for preparing to be with us today.

I would make this point of thanks, Mr. Chairman, not only with respect to the substance of what we are going to hear today, but I think existence of this panel makes an interesting point about this fast-track issue.

There are two issues before us and Congress. The first is what kind of agreement do we want in this circumstance? The second issue, I think, far more important and predicate to the first issue, is who should decide what the agreement should look like, and under what terms?

I think the fact we have such a wide diversity of opinion here today that we are going to hear from is arm evidence of the point that I would subscribe to, which is that this is not a decision which should be debated in a short period of time.

This is not a decision which should be rushed through the process, that the tremendous diversity of concerns, be that environmental, capital formation, questions of organization of American companies, and organization of the American economy, the mere existence of this kind of diversity of opinion, I think, is the most compelling argument to reject fast track.

It shows us that this body is one that is going to be largely excluded from the process of what goes on. So, I look forward to what people have to say, but I would like everyone to address in their own way that question, which is, who should exactly be deciding about what kind of agreement we should have, and what should the proper role of Congress be in that agreement.

Thank you, Mr. Chairman.

Chairman LaFalce. Mr. Boehner.

Mr. Boehner. Thank you, Mr. Chairman. I appreciate you having this hearing today.

I think it is very timely with the prospects for fast track voting on the Floor this week being very good. I was thinking several months ago about the vote that three of us on the panel who are freshman had when we first got here in January.

In fact, there was a historic vote about where to give the President the authority to use all means necessary with respect to going to war. While that was important, it was a significant moment for most of us who are serving in Congress. For those of us who are freshman, it was a baptism by fire.

As important as that vote was, and as important as it will be for America's future, frankly, I think this week's vote on fast track may even be more significant. If you look at growth in our Gross National Product over the last 5 years, more than half of that growth came from a net increase in exports. Even in 1990, 86 percent of our growth in Gross National Product came from a net increase from our exports.

There is no question in my mind that if we look forward to not just the pleading of my generation, but to my children's generation, they are 13 and 11, and we try to picture what the world is going to look like 20 years from now, I believe the vote on fast track could significantly impact what is likely to come.

Because with fast track, we have hope, hope that we will have an opportunity to look at a free trade agreement with Mexico, that we will have hope for a GATT agreement. Without fast track, we have no hope that we will ever see an agreement that will be worthwhile or even worth consideration.

The vote this week is merely an opportunity to let the administration continue bargaining on those two agreements. We will have plenty of time to discuss whether those agreements are good for America or bad for America if, in fact, we are presented with agreements.

It is not likely we will have anything on Mexico until later this year or early next year. A GATT is at least a year away. So, I think there is ample time. So, Mr. Chairman, I look forward today to hearing the testimony from our witnesses.

As a former small businessman, myself, I understand, I think, the problems of many in our free enterprise system, the problems that they encounter, and I look forward to continuing to expand my horizons in terms of the opportunities and the problems that do exist.

Thank you.

Chairman LaFalce. Mr. Allard.

Mr. Allard. Thank you, Mr. Chairman.

I would just like to keep my comments very brief. I would like to associate my comments with Mr. Ireland's. I think he addressed the problem very well. I would just like to comment, as a small businessman myself, that I look at the North American Trade Agreements as extremely important to small business, and we need to be doing the right thing.

I think that, like any other negotiating process, we have to allow our negotiators to go in and negotiate some type of an agreement, and then bring it back to the full Congress, and we vote it up or down, just like you would any other negotiating process.

I think that is the proper way to do it. I would like—I hope that we can pass fast track, give the President and the negotiating team for this country the ability to work to bring down and negotiate some of these trade problems we do have, particularly those that relate to small business and our North American Trade Agreements.

Thank you very much, Mr. Chairman.

Chairman LaFalce. Thank you, gentlemen. We will now begin hearing from the witnesses. Our first witness will be Mr. Alan Lewis, the president of Gerber Plumbing Fixtures Corp. of Chicago, Illinois.

TESTIMONY OF ALAN G. LEWIS, PRESIDENT, GERBER PLUMBING FIXTURES CORP., CHICAGO, IL

Mr. Lewis. Thank you.

Our headquarters is in Chicago, Illinois. We have two factories in Indiana, one in New Jersey, and one in Alabama. We manufacture vitreous china, plumbing fixtures, and also chrome-plated faucets and fittings.

I am here to voice opposition to the fast-track free trade with Mexico. I am here to tell you that the U.S. plumbing industry is

mainly controlled by about 11 companies, 2 of which are what we call major manufacturers of international stature, and the other 9 are more U.S.-located, competitive manufacturers, like my company.

There are approximately 25 vitreous china manufacturing facilities in the United States and over 18 of those are located in what we call the Rust Belt of Illinois, Ohio, New Jersey, and Pennsylvania.

My industry is a labor-intensive industry. Labor is often as high as 50 percent to manufacture a toilet. On the other hand, a toilet, as we all know, will last a lifetime or two lifetimes. It is literally a product that does not wear out. Because of the competitive nature of the plumbing industry, our most popular model toilet has not had a price increase since 1986.

Meanwhile, of course, our labor, energy costs, and everything else have continued to go up. Mexican pottery, which at this time comes into this country about 6.7 percent tariff, enjoys about a 25-percent advantage. On top of that, it enjoys energy advantages, and most certainly it enjoys environmental advantages,

My company and others must meet all OSHA and EPA requirements. We have invested literally millions of dollars in the past 5 years to clean up our water and air, and we gladly do this because this is our country, and we want to keep it clean.

I don't know if the Mexicans feel the same way. Articles we have read and my own visits to New Mexico have shown me that it is not there. Those people are not on the same track we are when it comes to the environment, when it comes to concern for workers.

My company employs approximately 900 people, although now we are off about 50 people with the recession. These are hard-working Americans, people who earn $25,000 to $30,000 a year working in our factories. If these jobs are forced to leave the United States, what are we going to do with those workers, their families, and the future education of their children?

We hear a lot about retraining of workers. Now, how are we going to retrain a man who has been working in a factory for 20 years and, he is 45 years old? What are you going to retrain him to do that is going to pay him anywhere close to his $30,000 a year salary? Nothing.

As far as I can see, we can't even teach our kids to have a good education, so, my problem is how are you really going to retrain workers? It is not going to work. My company wants to remain as a U.S.-based manufacturer. In fact, we point with pride that we make our products in the United States.

We do sell our products internationally. We have a very good market in Canada. We enjoy free trade with Canada. Why do we enjoy it? Their concerns on the environment are like ours. Their labor rates are very much like ours.

We buy valves, et cetera, for our products from Canada. We also ship to Korea and other foreign countries. Let me give you a synopsis of free trade as the rest of the world describes it.

A couple of years ago we started getting phone calls from Korea, literally by the hundreds. They wanted to buy thousands of toilets. Their factories were on strike because of the labor strife in Korea.

Apparently the government decided it would be nice to do business with American companies, so I think they had 20-percent tariff on plumbing fixtures which they lowered so we could import freely.

We shipped $5 million of the product there over 2 years. Suddenly, there is no more product being imported. What happened? Korean vitreous china factories went back to work. Now, we are excluded from the market.

A few months ago, we started getting phone calls again. We need toilets. All of a sudden our price is too high. We are about 10 percent too high. Where do all the products come out of? Mexico.

That says to me the rest of the world gives lip service to free trade, and we buy it, and American companies are the ones that sometimes get hit with those free trade falsehoods. If it happens that we have to move to Mexico, if free trade begins, my company will probably have to do that.

The major competitor in the industry, the largest U.S. manufacturer, is building a tremendous plant in Mexico right now, probably in conjunction with the hopes that this free trade will begin——

Chairman LaFalce. Who is that?

Mr. Lewis. Kohler Co. out of Kohler, Wisconsin. They are also multinational. They will no doubt force other competitors like ourselves to consider opening factories in Mexico just because of the tremendous difference in labor. I would be reticent to do that because I have concerns about pollution and everything else that could be affected from Mexico and the United States.

I am here to ask that the fast track be discontinued, and that there be a debate in Congress over the impact of Mexico and free trade. Every other country that we have done free trade with in our area has been much like the United States. I am talking about Canada. Mexico is a different type of character. I think we should review it very closely.

Chairman LaFalce. You had better be careful. Somebody might call you a racist just because you make a statement like that. I know. I have had the accusation made against me for noting cultural and linguistic differences.

Mr. Lewis. If you came to my factory, you would see the United Nations. We have workers who came here from Thailand and Vietnam because they heard the United States was the place to go to raise their families in freedom. Now, they find out they might lose their jobs.

I think 60 percent of our workers responded and wrote letters to the Congressmen in their area. What kind of message do we tell immigrants who come here with the hope of a good life and all of a sudden the good life moves somewhere else?

So, there is nothing racist in my comment.

Chairman LaFalce. I know that.

Mr. Lewis. I would just like, in summarization, Congress to look at this issue. You brought up what happened in the Middle East with a war. That was an emergency. That had to be attacked quickly. Fair trade, free trade, is a long-term proposition. It can influence this country for centuries to come. I think we should debate it, and look at it, and not just say, let's run it through.

Thank you, Mr. Chairman.

Chairman LaFalce. Thank you, Mr. Lewis.

Now we will hear a very different perspective from Mr. David Padilla. Mr. Padilla is the president of the Manuel Lujan Insurance Co. of Santa Fe, New Mexico.

TESTIMONY OF DAVID P. PADILLA, VICE PRESIDENT, MANUEL LUJAN INSURANCE AGENCY, AND PRESIDENT, MANUEL LUJAN REAL ESTATE CORP., SANTA FE, NM

Mr. Padilla. I am the president of the Manuel Lujan Insurance Co. and president of the Manuel Lujan Real Estate Corp. As a small businessman——

Chairman LaFalce. I am sorry, I didn't here that. What about the corporation?

Mr. Padilla. Manuel Lujan Real Estate Corporation. I am an insurance structured settlement and real estate broker. I deal basically in financial services and, obviously, real estate. I also serve as a member of the industry consultation program for the U.S. Department of Commerce.

In that capacity, I am a member of an advisory committee for small and minority businesses. I was also serving, and continue to serve, in the State of New Mexico on the Governor's Board of Advisory Committee.

With that background, I am in daily contact with small and minority businesses throughout the State of New Mexico. As you all know, for the purpose of international trade, small business is defined as having 500 or less employees. In the State of New Mexico, 95 percent of all of our businesses fall into that category. They represent all sectors of the economy. The proposed North American Free Trade Agreement, especially with Mexico, will have a significant impact on small businesses within the State of New Mexico.

Through my testimony, I would like to present two examples that are specific as to how the free trade agreement will impact upon small businesses within the State. Small and minority businesses now face the critical challenge of competing in a global economy.

They need to seize every advantage in order to survive. Freer trade with Mexico would assist the United States small and minority businesses in two significant ways.

Number one, it would expand markets for U.S. products into the interior of Mexico, and second, it would create job opportunities for Americans. In a global economy, development capital will move where the return of the investment will be capitalized.

Benefits from trade liberalization with Mexico will in the long term far outweigh the short-term cost. The twin plant operations have previewed the benefits for both the United States and Mexico. While 450,000 Mexican jobs have been created along the 2,000 mile Mexican-American border, the U.S. industry has shifted jobs to support the maquilas.

These U.S. jobs would have been eliminated had the companies been required to move offshore in pursuit of lower labor overhead costs. Also, the interior States' labor force benefits from the United States-Mexico interchange. For example, the so-called Rust Belt

States, specifically Illinois, have been the lead suppliers of materials into maquiladoras.

The number of jobs in the Rust Belt States remains secure. However, the type of job has shifted from final-production type jobs to supply-oriented jobs. While the timetable for maximizing benefits is in the somewhat distant future, elimination of trade barriers between the United States and Mexico would immediately begin benefiting small businesses, both minority owned and nonminority owned, within the United States and specifically in New Mexico.

As a border State, small and minority business in New Mexico anticipates possible economic benefits from the North American Free Trade Agreement. In addition to geographical positioning within New Mexico, the State of New Mexico continues to maintain deep-rooted, historical, cultural, and commercial ties with Mexico.

My testimony today presents two specific examples of small and minority New Mexican businesses that will immediately benefit by the United States-Mexico Free Trade Agreement. Case one is with Ponderosa Products, a small wood product manufacturer. The second is Alliance Electronics, Inc., a small minority enterprise.

Both of these firms currently export their products to Mexico, Canada, and other GATT member countries. These companies demonstrate private sector interest in relaxing trade barriers with Mexico.

Case one, Ponderosa Products, Albuquerque, New Mexico: Specifically, Ponderosa Products has approximately 200 employees and manufactures infused, laminated particle board. Ponderosa supplies materials to the maquiladoras. Currently, there is a 5-percent tariff on particle board and a 20-percent tariff on laminated particle board exported to Mexico.

Laminated particle board supplied to the maquiladoras is used to supply materials for cabinets for big screen television sets manufactured by the Zenith Corp. Ponderosa is able to supply a higher quality product than its competitors. However, the tariffs eliminate Ponderosa from being competitive in the interior Mexican market.

With a level playing field provided by the free trade agreement, Ponderosa Products projects an increase of its exports by 15 percent and the creation of an additional 50 to 75 new jobs for New Mexico.

In New Mexico, that is a significant number, thanks to the average size of our small businesses of between 5 and 15 employees. Interestingly, Ponderosa Products manufactures particle board from sawdust that is generated from mills throughout the Rocky Mountain region.

The use of byproduct sawdust recycles material that otherwise would be dumped in a landfill. Recycling the sawdust creates a positive impact upon the environment and provides the mills in the region with an additional source of income.

The second case I would like to illustrate would be for Alliance Electronics, Inc., of Albuquerque, New Mexico. Alliance manufactures electronic components such as semiconductors, diodes, and computer hardware. Alliance, Inc. exports products to the interior of Mexico and also supplies materials to the maquiladoras area.

Currently, there is a 23-percent tariff on all electronic products exported to Mexico. Mr. Chairman, the materials supplied to the maquiladoras are used to provide value-added automobile harnesses, video cassette recorders, and television sets produced by the RCA and Zenith Corps.

Also, and specifically, Alliance Electronics produces a personal computer for Intel Corp. and is interested in direct marketing of these computers to Mexico and businesses in order to assist them with their business infrastructure.

Complicating the 23-percent tariff disadvantage for Alliance Electronics, Korea and Thailand have penetrated the Mexican interior market for personal computers. They sell an inferior and approximately a $300 less expensive clone to the high-end 386 and 486 Intel personal computer models.

Since Korea and Thailand are not participants in the proposed free trade agreement with Mexico, both of these countries would be required to continue paying the 23-percent Mexican tariff. Combined with Alliance's superior quality and the elimination of the 23-percent tariff, Alliance would be cost competitive with the Korean and the Taiwanese computers.

Alliance Electronics projects an initial increase of 12 percent in the sale of computer exports to Mexico as a direct result of the free trade agreement and, again, the creation of 10 to 15 new jobs for many New Mexicans.

To underscore the support of New Mexico for trade liberalization of New Mexico, attached to my testimony are resolutions of the boards of the Albuquerque Chamber of Commerce and the International Trade Council of New Mexico calling for the extension of the Fast Track North American Free Trade Agreement.

A close congressional fast-track vote may signal a negotiating posture and encourage opponents to the agreement to press for special treatment or exemption. Therefore, we urge you to vote against any disapproval resolutions offered on the fast-track authority and to give your full support with respect to the NAFTA negotiations process.

Again, on behalf of the small and minority business community in the State of New Mexico, thank you all for allowing me to testify in support of extending the fast-track procedures for a North American Free Trade Agreement.

[Mr. Padilla's statement may be found in the appendix.]

Chairman LaFalce. Thank you very much, Mr. Padilla. Those bells that just rang indicated that we had, as of the time of the last ringing, 10 minutes to get to the floor to cast a recorded vote. So, it will take us some time to go over and back.

I think we will be able to resume in about 15 minutes. Let's say we will recess until 2:10, and we will reconvene at that time.

[Recess.]

Chairman LaFalce. The Small Business Committee will reconvene. I apologize. Unfortunately, I was unable to come directly back here.

When I left, we had just concluded the testimony of Mr. Padilla. We shall now hear from Mr. John Higbie.

TESTIMONY OF JOHN HIGBIE, PRESIDENT, A.E.S. INTERCONNECTS, AVON, IN, ACCOMPANIED BY EVELYN PATTERSON, DIRECTOR OF HUMAN RESOURCES

Mr. HIGBIE. Good afternoon, Mr. Chairman and members of the committee. My name is John Higbie. I am president of AES Interconnects, a family-owned corporation located in Avon, Indiana, just west of Indianapolis, in Representative John Myers' district. With me is our director of human resources, Evelyn Patterson.

We are here at the invitation of the committee as a result of William Bywater, president of the International Union of Electrical Workers, citing to you our Kirklin, Indiana facility as an example of an American company whose employees lost their jobs when work was transferred to factories in Mexico; and also, because we want to provide this committee with the perspective of a small company that is a supplier to the automotive industry, a company whose product has labor-intensive content, a company that is seeing ever-increasing costs, including costs required by Government regulation, accounting boards, and mandatory benefit plans, to such an extent that in order to maintain competitive prices for our product, we find ourselves moving work from Indiana to Texas and, most likely, into Mexico.

AES is a supplier of wiring harnesses to the automotive industry. At peak levels, AES employs 200 people, has sales of $8 million a year, and 65 percent of our business ships to a supplier of the General Motors Corp. based in Kokomo, Indiana. This supplier operates two maquiladora facilities in Mexico, and 50 percent of our product ships to these factories in Mexico. The remainder of our product supplies the truck and bus industry in the United States and Canada, the U.S. Navy, as well as two Japanese transplant automotive radio manufacturers.

AES is what is known as a contract manufacturer. AES manufactures product to blueprint. Our expertise is in our assembly skills and product knowledge. We sell no product on the consumer market. Our bank considers us a strong company, and we consider ourselves a conservative company. Our goals are to serve the customer by supplying a quality product, to satisfy the shareholders, and to support the interests of the employee and community.

AES was organized in 1955. Previous customers have been RCA, Allis Chalmers, Maytag, Frigidaire, and IBM.

The story of AES, I suppose, would have to be one of adapting to the comings and goings of the large industrial concerns of the Midwest in the 1970's and 1980's. There were two major events which have influenced our actions in the last decade.

The first event was an upward wage spiral in the late 1970's. By nature, our product requires labor-intensive hand assembly. By 1986, it became apparent that AES was pricing itself out of its hand assembly operations at our Avon location. Company and union-negotiated labor costs were averaging nearly $7 an hour in relation to our competitor's minimum wage levels.

In order to maintain our level of sales, AES opened a second facility at Kirklin, Indiana, 30 miles north of Indianapolis, at 25 cents above minimum wage. An IUE local was organized in mid-1988, to which half of the Kirklin employees now belong. The open-

ing of our Kirklin factory allowed us, and still allows us, to ship product at prices acceptable to our Midwestern customers.

By 1988, Kirklin was shipping product to Kokomo, Indiana, and to the maquiladora facilities located across the Texas border from Brownsville and McAllen. The employees at our original Avon, Indiana location were retrained for high-technology work such as mil-spec soldering for the Navy, and building higher-priced cable assemblies for the truck and bus industry.

To comment on the IUE's President's remarks concerning our Kirklin, Indiana facility: Our customer's Reynosa, Mexico facility decided to fill excess capacity by producing internally one particular product line that had been assembled at Kirklin. This business equaled $1 million a year in sales and 14 full-time employees.

The transfer of the work to Reynosa began in April 1990, and will be completed in June 1991. The IUE petitioned the U.S. Department of Labor for additional benefits under title II, section 2 of the Trade Act of 1974 on behalf of the laid-off employees in Kirklin. The benefits have been awarded.

However, our customer has since backfilled the Kirklin facility with additional business, in order to maintain competitive pricing for the harness business remaining in Indiana. Employment levels would be at the layoff levels at this time if the automotive market had maintained 1990 sales levels.

It is fortunate for AES and its employees that our customer had additional product to award that was deliverable within Indiana. Whether that business remains in Indiana and, therefore, whether our business remains in Indiana, is a source of friction between our customer and the UAW. AES will remain adaptable to our larger business needs in order to maintain satisfactory business levels and also by obtaining new lines of business.

The second event was, and continues to be, a requirement of the transportation industry, brought on by foreign competition, for continuous improvement of our product quality and internal processes, and closer contact between customer and supplier to help meet these goals.

By mid-1988, our customer's Matamoros, Mexico facility expressed a desire to be supplied from a location closer than Kirklin, Indiana in order to allow their personnel in Mexico to assist AES in maintaining higher quality and process control.

Again, we were faced with a decision of losing 50 percent of our business or moving south. Accordingly, AES decided to open a facility in Harlingen, Texas, 20 miles from the border.

Why did we not move into Mexico at that time? Being from the Midwest, and not familiar with the Hispanic culture, I felt that learning the customs and legal requirements for doing business in Mexico was too great a burden, considering the short time allotted to begin production.

We were satisfied to contribute to the economy of an area with one of the highest unemployment levels in the United States. By doing so, we benefited from the Job Training Partnership Act, which paid 50 percent of the hourly wage for 6 months while job skills were being learned, from the high school education of our assembly employees, and from their ability to catch on quickly to our manufacturing methods.

While our product may be simple, it requires an attentive and process-oriented work force. Our Texas facility has been successful to the extent that we were able to reduce prices 6 percent on average for the upcoming automobile model year, while General Motors requested only a 3-percent decrease.

So, what you have here with AES, Mr. Chairman, is a small Midwestern automotive supplier who has followed the lead of our largest customer and opened low-wage facilities in Indiana and Texas in order to maintain adequate business levels.

So, what is next for AES? Just last week, I learned that one of our competitors will be assembling a harness in Mexico at a price 14 percent under our price, an American competitor. It seems again that if AES wants to retain a major customer at the sales level we now enjoy, we will be following the competition.

This probably means that we will move our facility from Texas into Mexico within 2 or 3 years, with or without free trade. Fortunately, we will have to move only 20 miles or so, but because of competitive pressure, 50 Texans, mostly women, will lose their jobs.

The workers' compensation problem in Texas, which required AES to increase our payout from $20,000 to $50,000 in 1 year for the insurance makes this an easier decision. Unfortunately, there is no other market for our type of manufacturing in the South Texas area, so retraining our employees is not an option.

What is AES's perspective on small businesses in the automobile industry and free trade?

I think that this will be a common story of small businesses that supply the automotive industry. As it has always been, competitive pressures force the small supplier to follow the lead of larger companies into lower-cost labor markets.

Some of the automotive parts business in Indiana is an initial example of Detroit's search for lower-cost operations. Concepts such as "just-in-time," which requires short supply lines, and "continuous improvement," which requires close monitoring of the supplier by the customer, makes following the customer almost mandatory.

Trying to remain competitive in Indiana, or Alabama, or Texas, or whatever low-wage State remains, will be difficult. The opening of Mexico for low-cost labor will start the flow of small companies into Mexico, if transportation costs make sense. Of course, this will not occur in 1992 on a large scale; it will occur over the next 5 to 20 years.

Business decisions are based on numbers. I estimate that without trade barriers, and shipping from an AES facility in Mexico, the savings to our customers due to labor expense would be 15 to 21 percent. Imagine the savings for companies with double or triple AES's wage rate such as the auto assembly plants.

Imagine how this savings would affect the price of a car if it were passed on to the consumer. Frankly, Mr. Chairman, it is the consumer who needs relief. When was the last time the price of a major purchase went down instead of up? Recall the good feeling, and increased buying, I might add, that accompanied the drop in gasoline prices toward the end of last year. Special interests have valid arguments, but consider the interests of the rest of us, the other 99 percent of the population you represent.

Besides lower consumer prices and increased economic activity, another positive aspect that the spread of American industry into Mexico will bring is the spread of American ideas; ideas that do not get taught from just using our products.

Are not concepts such as better technology processes, higher educational, environmental, health, and welfare standards, democratic processes, the honest local authority, things that could greatly benefit the Mexican people?

On the other hand, what of the AES's displaced workers? I have seen barriers broken down in the last 3 years between labor and management in a spirit of cooperation for the survival of the company. Cooperation allows new technologies and new skills to be introduced into the workplace.

This was accompanied at our original Avon location. On a national scale, Government on-the-job training programs in lieu of welfare, as well as job skills training in high schools are two answers.

On a more cynical level, one could ask what was the displaced employee doing before AES moved to Kirklin or Harlingen? Economic activity is dynamic. I am sure there is not one person here who has not lost a job at one time or another.

Mr. Chairman, what I am saying today is that AES is not actively seeking to move into Mexico, but if we must, we must. The challenges of moving into Mexico are tremendous for a small company, challenges such as language barriers, high startup expenses, new customs, different education and skills levels. However, it is my job to maintain the viability of the company, and it seems to me that all roads are pointing south.

Chairman LaFalce. Thank you very much, Mr. Higbie.

Our next witness will be Mr. Mac Cates, CEO, Arkwright Mills, Spartanburg, South Carolina.

Mr. Cates.

TESTIMONY OF M.L. CATES, JR., CHIEF EXECUTIVE OFFICER, ARKWRIGHT MILLS, SPARTANBURG, SC

Mr. Cates. Thank you, Mr. Chairman, and members of the committee.

I appreciate the opportunity to appear before you today. In the interest of time, and with your permission, I will summarize my testimony and submit a complete written statement for the record.

Chairman LaFalce. No objection.

Mr. Cates. My name is Mac Cates, Jr. I am chief executive officer of Arkwright Mills in Spartanburg, South Carolina.

My company is 94 years old. You might be interested in the reason I qualify as a small business. Over the last 20 years, I have closed two out of three plants due to imports and have gone from providing over 1,000 jobs to employing 300 people. The first plant I closed was the lowest-cost, most efficient plant in its market area.

In fact, I won a case before the old Tariff Commission, now known as the International Trade Commission. I won adjustment assistance for my workers and my company. So, I know first-hand what a unilateral free trade policy can do to a company and to an

industry. I know first-hand of the need for a level playing field in trade policy.

My company now employs 300 people in one plant with annual sales of approximately $25 million. We sell our fabric to U.S. producers of work gloves and other types of apparel, and I am very concerned about the potential impact of a North American Free Trade Agreement on my company and my industry.

Since 1986, imports of cotton gloves have gone from 15 million dozen to 20 million dozen pair, an increase of over 30 percent. Over 57 percent of all woven work gloves are now imported. The fabric that we make is directly competitive with the fabric in these imported gloves.

A free trade agreement with Mexico could cause even more trouble for the work glove industry. Specifically, I am concerned that work glove producers in Mexico will either purchase fabric from larger Far Eastern suppliers rather than from U.S. and Mexican suppliers, or become merely pass-through or transshipment operations where they would relabel products actually manufactured in the Far East.

The U.S. Government must make sure that this does not happen and that only United States and Mexican firms will benefit from such an agreement. If we are going to have a free trade agreement, we will need rules of origin which prevent this funny business from going on. We need to protect the U.S. textile and apparel industries from cheating by the Far East.

I know that you are primarily interested in the effects of a Mexican Free Trade Agreement on small businesses. But you should be aware that the Uruguay Round of trade talks could hurt Mexico as badly as it will the textile industry in this country.

The Uruguay Round will do away with the Multifiber Agreement and the individual quotas that Mexico now enjoys. It will at the same time eliminate quotas that restrain imports from the PRC, India, and Pakistan. The result will be that apparel jobs will be lost by both Mexico and the USA to these lower-cost producers.

ATMI has just completed a study of the possible effects of the Uruguay Round on our industry. Within 10 years, the combination of eliminating quotas and cutting tariffs will seriously cripple, if not fatally injure, what is today, America's largest manufacturing sector. This is shown in charts accompanying my written statement.

It is also estimated incidentally there will be 350,000 additional jobs lost from supplying industries.

Apparel companies will go out of business as imports from the Far East flood our markets. As they go out of business, so will their suppliers. I am such a supplier. That means my company will no longer exist.

In other words, gentlemen, with a Mexican Free Trade Agreement, we will struggle to compete. But with a Uruguay Round Agreement, we will struggle to survive.

I am leaving today for a meeting with by board of directors. We are down to one plant that was built in 1968, which is relatively new for a textile operation. That plant has been modernized four times since 1968. We are in the process of a fifth modernization right now.

Do I ask my board to continue to modernize, or, more importantly, what do I tell my workers about the future of their jobs? The answer to these questions, I think, lies in the question, will you, gentlemen, deny fast track so that Congress can give meaningful input and oversight to a Mexican Free Trade Agreement, and will you gentlemen deny fast track so that Congress can amend the present position on textiles and apparel in the Uruguay Round, so my companies, my workers, and this great industry can survive?

That is the question this small business person would pose. Thank you, sir.

Chairman LaFalce. Thank you very much, Mr. Cates.

[Mr. Cates' statement may be found in the appendix.]

Chairman LaFalce. Our next witness, again with an alternate perspective, will be Mr. Ignacio Urrabazo, president, International Bank of Commerce of Laredo, Texas.

Mr. Urrabazo.

TESTIMONY OF IGNACIO URRABAZO, JR., PRESIDENT, INTERNATIONAL BANK OF COMMERCE, LAREDO, TX

Mr. Urrabazo. Mr. Chairman, Members of Congress, thank you very much for giving me the opportunity to address such a distinguished group of people. It is certainly a privilege to come before you.

My name is Ignacio Urrabazo, Jr., and I am the president of Commerce Bank in Laredo, Texas. I have 22 years of banking experience, principally in the credit areas of small business loans, real estate loans, consumer loans, and international loans.

I would also like to mention that I serve on an advisory capacity to the board of directors of the South Texas Border Regional Small Business Development Center at the University of Texas at San Antonio. These centers are funded through the U.S. Small Business Administration, Office of Business Development, and extend from El Paso to Brownsville.

Commerce Bank has $91 million in total assets, and recorded earnings of over $1.2 million in 1990. We are part of International Bancshares Corp., the largest minority and Hispanic bank holding company in the United States, with assets of over $1.6 billion. Our banks are concentrated in South Texas, and our markets are South Texas and Mexico.

My topic this afternoon centers on the impact of a free trade agreement on the border area's small businesses. In my opinion, a free trade agreement will expand and further develop the small business sector in our communities. Indeed, I submit to you that a free trade agreement will have a tremendous economic boost to our area, which consists of approximately 90 percent small businesses.

I will address this subject in three parts: First, the historical economic data of the border area, including South Texas, indicating the international trade activity with Mexico and how it has a direct correlation with our own economic health; second, areas where small businesses will benefit mostly because of a free trade agreement; and, third, areas where small businesses should anticipate problems due to a free trade agreement.

The historical economic data is simple and clear. International trade with Mexico has been our greatest ally and our worst enemy. We would hope that a free trade agreement would stabilize this volatility in our area.

As an example, in 1980, 99,000 trucks crossed into Mexico from Laredo, Texas; in 1981, the number increased to 122,000 trucks, for an increase of 23 percent. This increase was partially due to the oil boom that Mexico was experiencing at the time.

However, in 1982 and 1983, truck crossings decreased to 72,000 and 50,000, respectively, for a decrease of 41 percent and 31 percent. This decrease can be directly attributed to the peso devaluations and Mexico's economic problems; that is, inflation, external debt.

Chairman LAFALCE. External debt is not included in your testimony, but, in fact, 1982–83 was the height of the Mexico debt crisis.

Mr. URRABAZO. That is correct.

As Mexico revitalized its economy, truck crossings increased steadily from 1984 to 1986, an average of 30 percent. However, when Mexico joined GATT in 1988, additionally, Mexico lowered its tariffs from 40 percent to a maximum of 20 percent, with an average of 12 percent, and reduced the number of products subject to prior import permits requirements to just 330 from 12,000 items, the truck crossings increased from 171,000 to 186,000 in 1989.

From 186,000 in 1989 to 261,000 in 1990, for an increase of 40 percent. This is a significant increase from prior years. From a total point of view, from 1983 to 1990, truck crossings have increased from 50,000 to 261,000, for an overall increase of 422 percent in a period of 7 years. Today, on any given day in Laredo, Texas, there is an average of 1,400 trucks crossing either southbound or northbound.

This indicator can also be applied to retail sales, tourism, hotel occupancy rates, housing starts, multifamily construction, and total work force employed. In fact, our unemployment percent has decreased from a high of 26 percent in 1983 to 11 percent in 1990.

Moreover, our employed work force has increased from 29,000 in 1983 to a high of 44,000 in 1990. Laredo, Texas has created 15,000 new jobs in 7 years, for an average of over 2,000 new jobs per year.

In 1989, $25 billion of U.S. products were exported into Mexico and $27 billion of Mexican products were imported into the United States. Over half of all U.S. exports to Mexico and over one-third of all U.S. imports from Mexico pass through South Texas, particularly Laredo, Texas. Texas and California are the dominant exporters of goods to Mexico. South Texas is the "funnel" for U.S. goods traveling to the interior of Mexico.

What this all means is that jobs for small businesses are being created because of the increased international trade with Mexico. These jobs are not only being created in Texas, California, and Michigan, but also on the border, because of the direct value added to this stream of trade through warehousing activities, building activities, transportation activities, distribution activities, financial, and insurance activities, to mention a few.

It is interesting to note that Canada, with only 26.5 million in population, has $78.3 billion in exports and $88.2 billion in imports in 1989. As a comparison, Mexico has 84 million in population and

only $25 billion in exports and $27.2 billion in imports. This demonstrates the tremendous potential for increased trade to develop between the United States and Mexico.

I predict that the $27 billion of exports will double, possibly triple, within 5 years. If $1 billion of new exports created 20,000 new jobs, then, we can easily assume that there will be 540,000 new jobs created. Small businesses will play an important role in this new job creation.

This will have direct and indirect job creations in the Northern States; but for the border area, the doubling or tripling of imports from Mexico will have a more direct effect.

The economic and development opportunities available to small businesses are as diverse and promising as the region itself; which brings me to my second point. What are the benefits for small businesses if a free trade agreement is signed?

I see three major areas of opportunities for small businesses.

First, small businesses will flourish in supplying products and services to new and existing import-export companies or transportation companies. Direct job creation will occur in the areas of housing construction, apartment building, custom brokerage companies, warehousing services, accounting services, legal services, and office supply companies.

Also, it should be noted that three new highways under construction will improve the connections between the interior of Mexico and the South Texas area. Completion of a new freeway between Laredo and Monterrey, Mexico, the most industrialized city in Northern Mexico, and two other freeways between Monterrey, and McAllen, and Tampico, a large Gulf Coast port, with Brownsville, Texas.

If additional infrastructure were developed in the United States, I can easily see an additional 4,000 to 6,000 new jobs in Laredo alone. I would hope that Congress appropriates new funding for some of these new projects as has been suggested by the President.

The second area of opportunities for small businesses is in the area of maquiladoras. Currently, there are approximately 1,900 maquiladoras employing 500,000 Mexican workers, accounting for more than $14 billion in Mexican exports, and consuming more than $10 billion in U.S.-made components and supplies.

Even without a United States-Mexico Free Trade Agreement, the number of maquiladoras served by the Port of Laredo could grow from 170 today to over 500 in 10 years.

The economic impact of supplies purchased by maquiladoras that are sold by border cities is increasing each year. The Texas Department of Commerce estimates that almost 15 percent of all maquiladora supplies are now purchased in Texas.

Texas supplied $1.5 billion in materials to maquiladoras in 1990, or over 12 percent of all Texas exports to Mexico. The job creation and economic impact on the border to supply the other $8.5 billion worth of goods and services is staggering. The window of opportunity for small businesses to establish operations in the border is open now and will increase. Those who take advantage of it will be amply rewarded.

Finally, the third area of opportunity for small businesses is the direct exporting of manufactured goods and services into Mexico.

This is the most promising area for the border area. Not only is there $25 billion of goods being sold and funneled through South Texas currently that can be manufactured in the border, but the growing Mexican market has unlimited potential for the small business. The border offers competitive advantages in reduced transportation costs, reduced labor costs, and a favorable business climate.

The city of Monterrey, Mexico, 150 miles from Laredo, Texas, accounts for most of Mexico's imports and exports. Monterrey has over 7,500 registered industries, including 3,000 major manufacturing firms. There are few cities on the entire North American continent where opportunity is more widespread than Monterrey.

It is interesting to note that if 1,900 maquilas bring $10 billion worth of goods to the border, you can imagine the needs for 3,000 major manufacturing firms 150 miles from the border. The economic power of South Texas as a trade and transportation region is certainly clear; but to directly supply goods and services to Mexico from the border, this would create a new economic center for the Americas.

A recent and first-time trade show sponsored by the Laredo Development Foundation indicated that 76 U.S. exhibitors realized actual first-year sales of almost $2 million during the first 2 days. It should also be noted that more than half of the attendees were from Mexico.

Finally, what do I see as the problems confronted by the small businesses in the border due to the free trade agreement? This will depend on the type of small business operated. The biggest challenge will be faced by certain wholesalers and retailers along the border. Retailing is a very important component of our economic base and employs approximately 25 percent of our work force.

However, we must first examine what these retailers are selling into Mexico. I venture to say that at least 60 percent of all the sales are either electronics or clothing, both of which are almost 100 percent foreign-made. Therefore, the impact will be minimal and short-term in nature.

It is critical, from a retailer's point of view, to delineate its product content as it relates to the rules of origin. He must analyze and adapt, if necessary, to this new environment. He must redefine his new product mixes and product lines. He must now plan and set new strategies for this new opportunity and establish new market niches.

Retailers and wholesalers must consider alternatives, such as: Pricing skills, return policies, extending sales hours, emphasize expert technical advice, on-site repair of certain items, develop special order capabilities, increase inventory levels, look at smaller markets that are more lucrative, offer other services, consider upgrading his merchandise, and retaining employees.

The retailer and wholesaler must stop being merchandisers of inventory and become marketing experts with consideration to needs. From my point of view, the adjustment will be short-lived.

In conclusion, an approval of a free trade agreement will have immediate benefits for the border and South Texas. I urge you to vote in favor of fast track and a beneficial free trade agreement. The impact of such an agreement will be felt for generations to

come. Such a major opportunity has not been given to our region in the last 100 years.

Keep in mind that in spite of the recent economic improvements, South Texas remains a region with the highest unemployment rates, the lower per capita income, the highest school dropout rate, and the weakest inventory of college and professional curriculum in the country. I urge you to give us the opportunity to develop this economic power.

Thank you.

Chairman LaFalce. Thank you very much, Mr. Urrabazo.

Our next witness, again with an alternating perspective, will be Mr. David Black.

Mr. Black is the vice president and general counsel for Arriba, Ltd. of Houston, Texas. Let us wait a minute until the room is cleared. Mr. Black, please proceed.

TESTIMONY OF DAVID B. BLACK, VICE PRESIDENT/SECRETARY, ARRIBA, LTD., HOUSTON, TX

Mr. Black. Thank you, Mr. Chairman, and members of the committee, for asking me to testify here today. I, too, would like to substitute a summary of my testimony with the written testimony having already been submitted.

I am here today speaking on behalf of Arriba, Ltd., a company formed by myself and Mr. Bill Flanigan, and I wish I could tell this committee that we had 100 employees that we could not find alternate jobs for because we were being put out of business.

Unfortunately, we never got to start our business, because we had a contract that was never performed. It has resulted in litigation which has continued since 1986. Some of the concerns that arose from that litigation are what brings me here today.

Instead of employees, I would like to introduce this committee to Mr. Rob Kimmons, who is our investigator seated behind me, and who has been very instrumental in helping us throughout this litigation. Also, our attorneys in Houston who have done an absolutely magnificent job.

We entered into a contract in 1984 with the Pemex Workers Union to clean up some residual oil pits. I don't know if this committee is familiar with the way refineries are run in Mexico and the way that the oil is dumped around those refineries, but it is a major problem.

The oil that is dumped creates huge lakes and contaminates the ecology for miles around these refineries. We entered into this contract in good faith, and, in connection with the contract, put up letters of credit and millions of dollars, both in U.S. banks and Mexican banks, and asked that the contract be performed.

It was not performed. Instead, we were asked continually to pay some good-faith money, pay $50,000, pay $100,000, so that things could get working in Mexico so our contract could be performed.

We refused to do that. We said there is $2.5 million in Allied Mercantile Bank in Houston, Texas. Deliver the residual oil, draw against the letter of credit, and you will receive your money. It was never done.

They asked us to put the money in Bancomer, in Mexico, letter of credit. We did. They again asked $50,000, $100,000, and that will help things work more smoothly here. After all, that is the Mexican way of doing business. I don't, by my remarks today, mean to offend anyone. I am simply telling the facts as I perceived them after 6 or 7 years of dealing with this problem.

We refused to pay. They refused to perform the contract. We sued them. We obtained a judgment in 1986. We——

Chairman LaFalce. Where did you bring suit?

Mr. Black. In Houston, Texas. We used every legal avenue we knew of to try to collect that judgment. We contacted lawyers in Mexico to seek to enforce the judgment there. None of them were interested. We eventually seized a safety deposit box that, in turn, led to a series of events that are much too lengthy to get into here.

The bottom line is, the case was settled, we believed, at that time, for another contract, because we still thought that maybe there was a chance that this would be done. We were constantly told, every time we inquired, that we had been talking to the wrong people.

The people that we talked to in that particular case told us now we were talking to the right people. The lawsuit was settled, the judgment was released, and another contract was entered into. This contract was a result of my meeting in Tampico with Joaquin Hernandez Eglesia, who was at that time the head of the Pemex Workers Union, and with the knowledge of Pemex.

The second contract was never performed. We ran into the same problem, the same need for a little advanced money to grease the wheels. We refused to pay it. Shortly thereafter, Mr. Salinas was elected President. At that time, he had the union leadership arrested, claiming they were all crooks, and they had stolen billions of dollars from Mexico.

Soon, thereafter, we were approached by a representative from the Pemex Worker's Union under the new administration. He offered another contract. This time, to help them recover the billions that had been taken from their country, in return for sharing with us what we recovered up to the amount to cover our judgments.

We agreed, but we asked him, please don't enter into that contract unless it would be performed. They signed, and they didn't perform.

After three tries, we felt as though we had no alternative but to go forward and try to collect our judgments any way we could. We did. We filed garnishments against the Pemex here in the United States, and the case was moved to Federal Court as Pemex always does, and we in turn filed a racketeering action against the Pemex because of their conduct in connection with the various settlements.

Mr. Flanigan and I, all during this period of time, have always looked for a solution to this problem. We have never wanted to continue this litigation. We always sought a peaceful solution that would benefit both countries.

We were referred by friends of Mr. Flanigan's to some very good people in Mexico who had acquaintances who were close to the President. We went to Mexico and visited with these people, and they in turn asked us to come to Mexico City and visit with some

more of their friends and the people who were close to the President, consultants to the President.

We did that, and we were told that the problem would be presented to the President. We presented some written proposals to the President that were intended to be given to the President to resolve the matter.

The result of that was that, within 3 days of that meeting, I was contacted by a person who had been involved in the case before, who said that he wanted to bring another person who had been involved in the case before to Houston to talk to me about a settlement of the case.

I agreed, and they came to Houston, and I met with them. At the time, I met with another person who I had not been told I was going to meet with and who was not introduced to me by name.

During our meeting and the dinner that followed, this person spoke to me very authoritatively on behalf of Pemex and the Mexican Government. I was told when he left the room, he was, in fact, a subdirector of Pemex, which is a decentralized governmental agency of Mexico.

He suggested to me in no uncertain terms and, in fact, told me that Mexico had no interest in doing any business with Arriba in connection with settling the dispute, that we were considered enemies of Pemex and the Mexican Government, and that the only way the case would ever be settled would be for cash paid to us, and that 20 percent, at least, of that amount would be paid back to the people who came and brought him to visit with me, out of which he would receive his part.

He was the only one, he said, who could make that recommendation, and that if he made that recommendation, the President would follow it, the case would be settled, money would be paid, but we had to agree in advance to pay the kickback.

The amounts we are talking about are between $36 and $90 million, and I was told by the person who called me to initiate this meeting, that the decision had been made pretty well that it would be $50 million, therefore $10 million would be paid in the kickback, and we would realize $40 million.

Now, I don't know about this committee, but to me, that is a lot of money. But I couldn't believe it was being made by the Government of Mexico, that proposition. So, over the period of the next couple of weeks, I taped conversations that I had with the person who brought this person from the government to me, and I have included transcripts of those tapes with my paper. I have left out the names, because I know that the Mexican Government knows exactly who they are.

I think while this may be an unusual case, I think it is symptomatic. I agree with Congressman Ireland that any free trade agreement should be fair and should be free. But I have to say that I believe it is also common knowledge that the Salinas administration was born of a fraud on the Mexican people by the PRI and President Salinas.

I think it is also fair to say that the Mexican Government is corrupt. I do not understand why our Government wants to put the small businessman of America in a position of dealing with a corrupt government.

I don't think fast-track authority ought to be extended. I am not saying I don't think a free trade agreement shouldn't be entered into. I think some sort of free trade agreement may very well be beneficial to both countries. I think there are some very, very basic, fundamental problems that have to be addressed in connection with that kind of agreement, and I don't think efficiency is served by saying, let's send these people out and negotiate it and then vote yes or no.

If we overlook some things, particularly some basic things like mordida, that is a part of doing business in Mexico, and don't address those in a free trade agreement, a free trade agreement, whether it is passed or not, is destined to failure. I don't think any free trade agreement is going to be possible with Mexico until there are major reforms in Mexico.

I think anybody who knows much about Mexico and has ever done business in Mexico would have to agree with me if they search their soul about it.

Chairman LaFalce. Are you just about finished, Mr. Black?

Mr. Black. Yes; I guess in summing up, I hope in our rush to increase our GNP, we don't sell our morals.

[Mr. Black's statement may be found in the appendix.]

Chairman LaFalce. Thank you very much, Mr. Black.

Our next witness will be Mr. Thomas Watson. Mr. Watson is the president of Watson, Rice & Associates.

Mr. Watson.

TESTIMONY OF THOMAS S. WATSON, JR., CHAIRMAN, WATSON, RICE & CO.

Mr. Watson. Thank you, Mr. Chairman. It is a pleasure to be with you this afternoon. It was a pleasure to have appeared before this committee several other times talking about trade issues, trade bills that were being considered, and it is no less a pleasure today.

I want to start with a thought that came to my mind as I was listening to the comments from you distinguished gentlemen and then from my colleagues here on the other side of this table.

Several years ago, I spent time as chairman of the Ohio Accountancy Board, which is a board that licenses certified public accountants to practice in the State of Ohio. We had a continual debate that in some elements is similar to the discussion I heard here this morning, and that was, do we allow people who want to practice accounting into the profession and then regulate them, or do all we can do to keep them out of the process?

A wise man who was the executive director of that board held the position that we should invite them in so that we can regulate them. Once you are a CPA with a license to practice, you have something to lose. You are in business. You have the same kind of vested interest as all of those who are interested in regulating the profession.

Well, aren't we now in a similar situation? Since Mexico has joined the General Agreement on Tariffs and Trade, just in a very short time, much cleanup has happened. We have increased exports from the United States to Mexico. We have been able to do business in a way that we never could have conceived of before.

Now that we are involved in a trade agreement and a trade negotiation with the 106 other members of the General Agreement on Tariffs and Trade, things have improved in the business arena, in the business environment, across the globe, and will continue to improve if we go back to the negotiating table.

Aren't we better served by encouraging as many people into multilateral trade agreements, into whatever we consider to be the global economy, rather than keeping them out, and saying we will operate without you, and you are free to do whatever you choose?

We will never be able to improve the problem of people moving across the border from Mexico to the United States if we don't have a working relationship between the governments. We will never be able to improve the problem or the issue of the environment in North America if we don't have agreement between the governments concerned.

So, it seems to me that the first step that we must take is the step of recognizing that we can only regulate, influence, or discuss with those people who are at the table. If nobody is at the table but us, we are talking only to ourselves.

The second question then is the issue of fast-track extension. The question there is not, in my mind, whether it should be extended or not; the question is, what does fast track mean?

I have been traveling the country for the last few months doing editorial board meetings and press conferences, talking about trade policy, and each time I stand before a microphone somebody asks me about fast-track extension. I have not yet had a reporter ask a question who was clear in his understanding or her understanding of what the process is.

I was a member of the U.S. delegation to the General Agreement on Tariffs and Trade, Brussels Ministerial, in December. What happened there was that the 21 of us who chair private sector advisory committees representing specific industries within the United States, members of congressional staff, as well as other administrative advisers to the trade negotiator, were all there in the room together. We were all expressing our very strong opinions together.

The negotiating position of the United States changed day by day, hour by hour, as new information came to us, and we responded. This was in no way isolated negotiation, where a few people went in a back room and came up with a deal that they then tried to ram down everybody else's throat. If that were what fast track meant, I would not be in support of it, and nobody else in their right mind would either.

But the trade negotiation process itself, from my firsthand experience, was one of an inclusive, cooperative negotiation on the part of the U.S. people, industry, Congress, and the administration, before a position was ever put forth or before a position was ever changed at a negotiating table.

Now, further, if a treaty had been signed and was brought back to Congress, there would be a yes-no vote with no amendment, but there would be considerable debate if Congress chose to debate it on the floor of both Houses. So, to say that there would be no further input may be a misunderstanding of the structure as it was written by you gentlemen and your predecessors in Congress.

I think we have to be careful here about where and how we move forward. We do not have an option of protectionism or isolationism as we might have had at some point in the distant past.

People can get to the United States from anyplace in the world on a jet aircraft in a few hours. We can send information back and forth all across this globe by fax or by telephone in a few minutes or seconds. We do not have the option of saying we will not participate in the global market.

We are here, and we are part of a larger marketplace, a part of a quilt of multicultural, multiethnic, multicolored people, whether we like it or not. We are either going to recognize that in our movement forward, or we are going to lose our preeminent position as leaders of the world from the United States.

I want to close my remarks—I heard another buzzer—I want to close my remarks right now, very quickly, with a story that I think can illustrate where I hope we are moving as a nation of nations in this global marketplace. That story is a story of two brothers who inherited a farm. When they first inherited that farm, they tilled the field together, they planted the crops together, they tended the crops together, and they finally harvested it together.

Upon harvest, they put their share of the crop, two equal shares, into two equal barns, sitting side by side. That evening, the younger of the two brothers couldn't sleep. Finally, at 2 o'clock in the morning he got up, sat on the side of his bed saying to himself, "This isn't right. This just is not right. My older brother has a wife and three children, he has many financial responsibilities, he needs more of this crop than I." So he put on his clothes, went out to his barn, took a major share of his crop and put it in his brother's barn. He then felt better so he went back to his home and went to sleep.

A half hour after he went in to sleep, his older brother woke up, and he looked over to make sure he hadn't awakened his wife, and mumbled to himself, "This just isn't right. My younger brother doesn't have the comforts of family life. He is still spending money finding himself out on the streets. He needs more money than I." So he put on his clothes, went out to the barn, took a major share of what was in his barn and put in his brother's barn.

They continued to do this year after year, always ending up with what they had started with. That is where we can be in relation to the other countries in the world, if we choose to. If we take that attitude and approach, all of us as citizens of the world should be better off.

Thank you.

[Mr. Watson's statement may be found in the appendix.]

Chairman LaFalce. Thank you very much, Mr. Watson.

Mr. Andrews, do you have any questions.

Mr. Andrews. Thank you, Mr. Chairman.

Thank you, all of the panelists.

Mr. Watson, let me see how you respond to this analogy. You have identified in part of your testimony the fact that the issue here is who decides, not simply what is decided. You spoke about the inclusiveness of a negotiating process.

How would you react if I introduced a bill that recognized the fact that there was considerable inefficiency and disagreement

about our defense budget in the country, and my suggestion was that for the next 3 years what we do in the defense budget is go to the Secretary of Defense, require him or suggest that he consult with people in the community, business, labor, academia, and present to Congress a 3-year defense authorization, the ground rules being that Congress would have the obligation within 60 days to turn thumbs up or thumbs down on the authorization without amendment?

How would you react to that proposal?

Mr. WATSON. Mr. Andrews, I think you have asked the wrong person, because I would like it. I think it would streamline the process.

I hold an opinion about the legislative process that comes from a businessman's viewpoint, and that is that there can be more clarity in the process of passing or rejecting bills that are vital to the long-term best interests of the United States or the globe by streamlining the process and keeping it focused on a single issue.

Now, if what you just described would allow us to have a congressional debate, would allow us to have considerable input from all concerned parties, but would force all of that discussion to be focused only on the issue of the Defense Department budget, I would be for it.

Chairman LAFALCE. I think he might also support a bill that I have contemplated offering, that will change the Constitution of the United States to switch our form of government from one focusing on a separation of powers between the Legislative and Executive Branch to a parliamentary form of government. Under the parliamentary form of government, the parliament would be able to vote yes or no on any proposal. I am glad to enlist your support of that.

Mr. ANDREWS. I will not be cosponsoring that, Mr. Chairman.

Chairman LAFALCE. On second thought, maybe I won't introduce it.

Go ahead. I didn't mean to interrupt you.

Mr. ANDREWS. Just one follow-up. Mr. Watson, how do we distinguish and delineate between issues that require the national interest the way you just described and issues which don't? How is it that the defense budget would fit the paradigm you just talked about of requiring unitary debate and others that don't? How do we draw the line?

Mr. WATSON. Again, you have asked the wrong person. I don't want to draw the line. I want to see clear discussion about single issues. I practiced as a tax practitioner for several years, and I would come up with the tax bill that Congress has passed, that had things on it that had absolutely nothing to do with taxes, had absolutely nothing to do with the issue on the bill.

Mr. ANDREWS. Would you support a change where any proposal made by the Secretary of the Treasury with respect to the Internal Revenue Code can only be voted up or down without amendment?

Mr. WATSON. No.

Mr. ANDREWS. Why not?

Mr. WATSON. What I am after is not the issue of voting up or down without amendment. What I am after is a clarity in the focus of the bill and the discussion.

What is different in the fast-track process is that we are not just operating with something that affects only our domestic economy. We are operating with a negotiation that requires some degree of comfort or confidence on the part of negotiators on the other side of the table if we expect to have them at the table.

Mr. ANDREWS. Should we extend the concept to the foreign aid bill? Should we permit the Secretary of State to unilaterally decide how much foreign aid each country gets without amendment or change by the Congress?

Mr. WATSON. There is no need to do that if we have a comprehensive multilateral trade agreement that affects what happens in the global economy, because then foreign aid becomes an issue of what all of us do in support of each other.

Mr. ANDREWS. I appreciate it.

Thank you, Mr. Chairman.

Chairman LAFALCE. Maybe I can just propose switching article 1 and article 2, of the Constitution. Article 1 gives the Congress the power to regulate commerce. Maybe we can introduce a bill that gives this authority to the President rather than Congress.

Mr. ANDREWS. Maybe the Queen's visit last week was a warmup.

Mr. IRELAND. Mr. Chairman, I didn't realize that you were such a parliamentarian.

Chairman LAFALCE. That is the basic issue.

Mr. IRELAND. I couldn't help, and I will address this to the gentleman from New Jersey, to be a little bit tickled about your 3-year defense plan, having spent some more time than I can think of in the Congress fighting so that the 5-year defense plan that we really do have, and have had, was available to this Congress, and then having found out that when we finally did get it, that it was $150 billion out of sync with the President's budget.

I would suggest to you that there is good news ahead. It has been virtually brought into sync with the current budget, with the President's budget, and you, as a Member of Congress, now have a lot more of an opportunity to have input there than actually most of our colleagues realize. So, although that isn't very much of a small business issue, some of what you were talking about has gotten some attention, and there is something going on there.

I am delighted for this panel. It has been a great show, and you all have been nice to hang in there all this time with us and present so many facets of the various arguments.

Mr. Lewis, I assume, because you have big competitors, you call yourself a small business because your business doesn't quality as a small business under any of the things I have been able to figure out, but I assume that is right, is that correct? Your competitor is much bigger than you are?

Mr. LEWIS. Most of our competition is owned by conglomerates. We are one of the few independently owned factories in the business.

Mr. IRELAND. You have 900 employees. I just assume that you consider yourself small business, and what is small business is in the eye of the beholder.

Mr. LEWIS. Generally, when I see Government statistics, our dollar volume is included as a small business rather than a medium or large.

Mr. IRELAND. The question comes to me about your story about the Koreans and the labor rates. The Koreans have substantially lower labor rates than we do, and, of course, your story was one of when they had a strike going on. You were the strike breaker in that case, I guess you would call it. But you mentioned, aside from that, that you were able to compete in other areas overseas, where there are lower wage rates; is that correct?

Mr. LEWIS. Yes; but that doesn't explain fully how we compete. As in many countries, including Mexico, we issue phony invoices. We issue invoices at 15 percent of the value.

Mr. IRELAND. I think Mr. Black needs to talk to you.

Mr. LEWIS. The realities of business, and I handled the export for years in my business, is that you have to cut the invoice value if you want to do business to those foreign countries.

Mr. IRELAND. That means cut the price?

Mr. LEWIS. No; we invoice at a much lower value to get around their tariffs. We generally get the money through the back door. That is the reality.

Mr. IRELAND. I don't want to put you on this thing——

Mr. LEWIS. You raised the question. I want you people to understand what world trade means to many countries. Let me tell you that we recently had an opportunity to bid on 1.6 gallon——

Mr. IRELAND. But you made money on it, or you wouldn't be doing it, I trust.

Mr. LEWIS. We didn't make money for the last 2 years, but we are trying. Our agent recently said, of course, include 10 percent for certain officials. That is the reality of foreign business in many markets.

Mr. IRELAND. Obviously, Mr. Black couldn't make money along that line. You obviously did it because you could do that and make money, or you wouldn't have done it.

Mr. LEWIS. wouldn't have done what?

Mr. IRELAND. You make this transaction with your phony invoices and all your things, and it would seem to me that you wouldn't do that business unless you made money. I mean, people don't do business to lose money.

Mr. LEWIS. We don't want to lose money, but because I am a family-owned business, we tend to look at our employees very paternalistically.

Mr. IRELAND. But I am asking you about these transactions that you discussed. I mean, you have laid it on pretty heavily about all these irregular transactions that you participated in, but why would you participate in them unless you were going to make some money?

Mr. LEWIS. Because there is a break-even point in volume in a business and sometimes you need to take some business that is not profitable.

Mr. IRELAND. Then that was to your advantage. In other words, you did it because it was to your advantage in running your business.

Mr. LEWIS. It probably was.

Mr. IRELAND. Or theoretically you wouldn't have done it.

Now, tell me about quality. First of all, tell me what a low flush toilet is.

Mr. LEWIS. You might know it real quick when some of your colleagues try to enact a Federal policy on water conservation. The current toilets flush on 3½ to 5 gallons, and we have developed toilets that flush on 0.6 gallons.

Mr. IRELAND. How does your quality compare with what is produced in Mexico?

Mr. LEWIS. I would say generally we have better quality.

Mr. IRELAND. As far as competing in Mexico are your problems like tile manufacturers?

Mr. LEWIS. When you say that——

Mr. IRELAND. Is the tile manufacturing business similar to yours as far as competing in Mexico?

Mr. LEWIS. I really don't know. I don't know anything about tile manufacturing.

Mr. IRELAND. Mr. Higbie, I was intrigued with your testimony which really highlighted both sides of the issue and told a great story. I was struck by the fact that you said that competition coming from overseas was driving you to a different quality standard.

Mr. HIGBIE. Right.

Mr. IRELAND. You couldn't attain that quality back in Indiana. You had to move closer the overseas source. I may be wrong, but I am sure the people in Indiana could produce the quality, I would like to think, that they could in Texas.

Mr. HIGBIE. We didn't move to Texas because Indiana had poor quality. The Mexican engineers and the process and quality control people wanted us to be closer to them for daily interaction. They could come to our factory, look at our processes. If there was a problem, we could get together and discuss it, get a faster reaction to the problem. Mexico is just better for interaction.

Mr. IRELAND. Was it the Mexican desire for quality, or the American subsidiary in Mexico that was desiring the quality?

Mr. HIGBIE. Both. Delco runs the facility, there is the supervisors and managers who are American. The people at the supervisory and engineering level there are Mexicans.

Chairman LAFALCE. We had a Delco plant in my district. They liked to deal with suppliers that are pretty close by. Of course, if the Delco plant were in Mexico, they would still like to deal with the suppliers that are pretty close by.

Mr. IRELAND. I have one final question, Mr. Cates, Mr. Higbie, and Mr. Lewis. In your kinds of business, I think it would be appropriate for this. Have you given any thought to going through the hoops for a Malcolm Baldrige Award? Many small businesses are. It has to do with quality and competition. Have any of you thought of doing that or have plans for doing it?

Chairman LAFALCE. This is the one with the Cadillac?

Mr. IRELAND. As a matter of fact, almost 50 percent of those applying are small businesses, which is really intriguing, and many large businesses, not unlike Mr. Higbie, are requiring that their suppliers get on that same track.

Mr. LEWIS. I would say we would be interested, but right now we are preoccupied with the lack of business we have, and we are putting all our energies into trying to keep our factories running.

Mr. HIGBIE. General Motors already has a program which we get graded on once a year.

Mr. IRELAND. Is that similar to the Malcolm Baldrige?

Mr. HIGBIE. Probably not as extensive. The customer comes in and grades us.

Mr. IRELAND. How about you, Mr. Cates?

Mr. CATES. We haven't thought of applying for that award. It would be something to think about. We are scratching and clawing just trying to get into the yard.

One of our neighbors received the Malcolm Baldrige Award, and that is the Milligan Co. So, we are quite aware of all the importance of quality in our industry, and we do try to achieve it. But we have not thought about applying for that award.

Mr. IRELAND. Actually, it appears to me from the nature of what is developed along the line, those who strive for that quality and go through those hoops are the ones that scratch on that gang plank getting on the ark and do a better job of getting there.

Mr. CATES. I think you would find Mr. Milligan himself doing a lot of scratching and clawing.

Chairman LAFALCE. Mr. Poshard.

Mr. POSHARD. Thank you, Mr. Chairman.

I would like to pose my question, Mr. Watson, if I may. I am not trying to be smart by this. I just want to paint an actual picture in my district that I think, at least in part, mirrors large parts of this country.

I have a coal-mining district and some small industry. Last year, we passed a Clean Air Act which is in the national interest. Coal mines in my area primarily produce high-sulfur coal, but, in the larger national interest, we passed a Clean Air Act and environmental standards, which is going to cost my district 10,000 to 12,000 jobs, the best paying jobs we have in my district, over the next 5 or 6 years.

My district had a dozen textile plants, 15 years ago. Today, it has two left, an average wage of $7 an hour, which is below the poverty level in this country for a family of four.

Those jobs are now in Mexico and South Korea, predominantly, that were in my district, being worked at about 80 cents an hour labor, from what I am told.

The plants and mines in my district, monthly, bimonthly, have an OSHA inspector who comes in. They go through the mines with a union official and with a management official. They inspect the mines to make sure that the standards for safety and health are being complied with, and if they aren't, they get it fixed right away, because in this country, we, and those mines, and those plants care about the health and welfare of the workers.

If the union officials in those mines, and I guarantee you it has happened in the past, was found to be taking payoffs and sacrificing the health and welfare of his fellow workers, he went to jail. So did the Government official. There is no tolerance for that sort of thing.

Now, if you were negotiating this agreement for the people of my district, I don't think you would hear any of them say, don't negotiate an agreement, we are not interested in the welfare of our fellow brothers in Mexico. We certainly are. But if you were negoti-

ating this agreement for my people in my district, who experienced the same sort of things that other people in this country experience, what would you do? What would you say?

Would you say in these agreements, we ought to ask for some wage differential treatments so that maybe all of the jobs wouldn't go to people—it doesn't matter if they are Mexicans or Koreans, no problem there—who would be making 12 times an hour less? Wouldn't you say that those folks ought to comply with the same environmental standards that my folks have to comply with? Would you say that the same health and labor standards for safety for workers ought to be negotiated?

I mean, if you were doing it for my folks, would you ask for those things to be included in the agreement?

Mr. WATSON. Even if I weren't doing it for your folks, if I were doing it from the personal experience I have in 20 years of running an accounting firm, where many of the firms, the companies that we have provided services for, are in the same kinds of situations that many of the companies that have been described here, and here, we have to make sure that we negotiate an agreement that considers what will happen in the United States, as well as how we will help the rest of the world.

I don't have all the answers.

I was 1 of 60 people, and they were sponsored by several thousand, but together, that has got to be the mind set of the trade negotiations.

Mr. POSHARD. Yes, sir; beyond that.

It seems to me that for those of us who are uncertain about this whole venture, that is all we are asking for.

I don't see people in my district saying, "Don't negotiate a free trade agreement."

What they are saying is just make sure that other people are playing with the same standards that we have to play with where we live.

We will take our chances on competing with folks, but my understanding is that is not what we are asking for in the agreement. We are not concerned about those things. We are being asked to accept an agreement that has none of those things in it.

Mr. WATSON. Well, your understanding is different from mine because I have not seen a GATT agreement presented to Congress. I have not seen a North American Free Trade Agreement presented to Congress because they haven't been negotiated yet.

Mr. POSHARD. But unless my guess is wrong, we haven't been given any guarantees from the President or anybody in the administration that any of these things will be taken up; at least held to on the basis of the final agreement.

Mr. WATSON. I would say to you the same thing that I say when I look in the mirror, because there are some specific issues that I am concerned about as well that haven't been embraced yet by some of the lead negotiators, but it seems to me that we have an opportunity to influence the process.

A congressional staffer said to me that hysteria has value, because it gets people's attention, and it then moves the negotiating position a little further toward where it should be.

Now, there was much hysteria in Brussels in December, and it moved a lot of things, as I am sure you know and have heard about.

There will be much more of the same kind of influence before any trade agreement is brought to Congress.

Mr. POSHARD. Thank you, Mr. Chairman.

Chairman LAFALCE. Mr. Boehner.

Mr. BOEHNER. Gentlemen, thank you again for coming today.

Obviously, some of your comments I agree with, others I didn't quite agree with, but one of the points made that at least I would like to expand upon is the fact that this whole area of trade is not a zero-sum business where we lose, and they gain, by the expansion of free trade.

Just over the last 100 years, we have not only helped ourselves during this last century, but we have helped other countries around the world expand their economies, which in the long run have helped us pretty dramatically.

When we talk about some of the changes out there, jobs are moving and have been moving to Mexico for some time, and we are not even close to a free trade agreement.

The assumption that the administration is going to stick us with a bad agreement, I don't quite understand.

The fact of the matter is the administration doesn't want to bring up a bad agreement and doesn't want to negotiate a bad agreement.

When we start talking about GATT, and whether we are actually going to have GATT, I am not sure it is ever going to get here.

There are some long distances that need to be traveled by the countries involved in GATT if we are ever going to have an agreement.

Some of the problems that were outlined, especially Mr. Black, I would suggest that, obviously, people in other parts of the world do business differently than we do here, and to eliminate, or at least effectively reduce, the independence of problems such as those you have had, I think we could go a long way down the road in solving some of those problems or at least developing a mechanism so that problems like yours can be effectively resolved.

One point I would like to ask Mr. Padilla on.

Over these last few months in Congress, it is rather interesting that the vast majority of legislators here in Congress who are against fast track come from the Northeast and come from the northern part of the Midwest, while it seems that a great majority of those who favor especially Mexico and free trade are coming from Texas, New Mexico, and California, and the businesses that we hear from, primarily Northeast and Upper Midwest, are very much against GATT and free trade with Mexico, but those business people such as yourselves along the border are very much in favor of it, and if there is so much that we have got to risk and so much we are going to lose, it seems ironic for me that those people who are closest to the border and have more to lose are in favor of this agreement.

Do you have any explanation or why that might be the case?

Mr. PADILLA. Yes, sir.

I think historically the border States have developed a strong relationship with their counterpart on the Mexican side.

The Northern States in Mexico are the most industrial. The agricultural production, for example, in the State of Sonora is one of the highest in all of Mexico.

I think that the relationships have developed on both sides of the border that have dropped these xenophobic feelings that somehow we are going to get the short end of the deal.

Therefore, being on the scene, for example, in my profession, I sell commercial insurance, and I must do what insurance companies call front-line underwriting.

I must go and I must assess the risk. I must do a risk-management survey to determine whether or not this particular risk is good or bad business for the insurance company.

So, in effect, the border States are your front-line underwriters. They are on the scene.

They report to the home office, if you will, and they see that the possibility here is tremendous for improvement of the business relationships that have gone dramatically over the past 5 or 10 years.

In fact, with or without a free trade agreement, we are doing a heck of a lot of trade with Mexico, as Mr. Urrabazo has already pointed out, but what the agreement will do, especially along the border States, would be to help us regulate to have a level playing field, to have mechanisms, as you say, for dispute settlement, rules of origin, all of these things, vital issues, sir, that you addressed in 1988, that Mexico passed legislation called the general law for ecological equilibrium and environmental protection, the standards based primarily on U.S. law and experience.

We have begun to see these things impact along the border region, so I think what has happened is because we are on the scene, we are able to have an open feeling for this.

Mr. BOEHNER. In conclusion, Mr. Chairman, I would point out that I, too, have concerns.

This is certainly not going to be an easy decision for anybody.

There are going to be many changes involved, but I would reiterate that the world is changing, and, as Mr. Watson pointed out, we can either change with the world and be part of the game or try to stand back and stay away from the game.

We did that in 1932, and the results were not very positive, but again, there are concerns, and we are going to have to work through them. I do appreciate all of you coming today.

Chairman LAFALCE. Thank you.

I have a few questions.

I just want you to know where I am coming from on some of these issues.

I have been to Mexico a number of times. In fact, I remember when I was in Mexico in 1988, meeting with the negotiator from Mexico, and many others, including Silva Herzog, the former Finance Minister.

In those meetings, Mexican officials said I had done more to give the people of Mexico hope than anyone else, because I had put in a legislation calling for the creation of an international debt management facility in order to forgive the debt of Mexico, which was their chief problem.

That proposal became known about 9 months later as the Brady plan.

In fact, Secretary Brady called me to his office in October 1988 telling me that if Bush were elected, they were going to abandon the Baker plan for debt relief, and they were going to do what I had recently proposed.

This is one of the reasons that I was called up by the Salinas Government after the election and asked to come down as one of the congressional representatives they wanted there when Salinas was sworn in.

One of the reasons I wrote a letter to President Bush, President-elect Bush, telling me the very first person you should meet with after your election is Salinas, to underscore the importance of the United States-Mexican relationship.

I am a proponent of liberalized trading arrangements, which is why, Mr. Cates, I voted against the textile bill and voted to sustain President Reagan's veto of it.

I voted to sustain President Bush's veto of it.

Of course, my primary reason was because I think a deal is a deal, and we have a deal with 38 countries.

It seemed to me, we would be unilaterally breaching those deals if we passed a law.

When those deals expire this year—when is the date of expiration?

Mr. CATES. The MFA is due to go out in July.

Chairman LAFALCE. When that agreement expires, we would not be breaking a deal.

It is a new ball game, as far as I am concerned.

Mr. CATES. I believe I am correct.

You could have changed that, but that was part of the deal that, at any point in time, any nation that was a part to that could call for a new law, like we did.

I don't know whether it is 90 days.

Chairman LAFALCE. It is the same with the United States-Canada trade agreement. You could terminate that upon notice, but that is something we should be loathe to do.

I do not have great concerns about a liberalized trading arrangement with Mexico. My God, we need to do that, with our eyes open, of course. But I have noticed what President Bush has in mind and, with no disrespect for the President, to tell you the truth, I don't think he knows what he has in mind other than some vague concept of a free trade agreement.

I don't think it is fleshed out any more than that in anybody's mind at this time.

I think I know a little something about this. I had a dozen hearings on the Canadian-American Free Trade Agreement. I had the chief negotiator of the Canadian-American Free Trade Agreement brief me at least a dozen times during negotiations for the agreement.

That agreement wasn't put together until the last minute.

That is the way these type of negotiations work.

Of course, then we needed to have an agreement. The Mulroney Government could have fallen if they didn't get one. But I have

some more fundamental problems regarding the proposed agreement with Mexico.

Mr. Padilla, are you originally from Mexico?

Mr. PADILLA. No, sir; I am a 17th-generation New Mexican.

Chairman LAFALCE. Terrific.

Mr. Urrabazo.

Mr. URRABAZO. My mother is from Mexico.

Chairman LAFALCE. You both probably know a little bit more about Mexico than I do.

You are close to it, the same way I am close to Canada, so I try to follow.

Why is it that the Government has won every single election since 1910, 1912?

Why is that?

Some people say it is because of the corrupt system.

Do you think there is much to that?

Mr. Padilla.

Mr. PADILLA. First of all, Mr. Chairman, I appreciate the fact that you are looking in-depth into this issue of free trade——

Chairman LAFALCE. The point of my question is, should the Congress give up its most basic prerogative under article 1 of the Constitution to regulate commerce? This is of particular concern in this situation where Congress has only a peripheral control, and is dealing with a country that has some very basic, fundamental problems, such as an absence of open and fair elections?

As much as some people think of Mr. Salinas, and as much as I think of him personally, people say that even his election was terribly tainted, that only about 55 percent of the ballots were counted some 3 or 4 weeks following the election.

Mr. IRELAND. I think that happens in Chicago all the time.

Chairman LAFALCE. I don't think you can state that. I don't think it happens in Chicago. I don't think it happens in New York. I don't think it happens in Canada .

I do think it happens all the time in Mexico, and that is the fundamental difference.

It almost never happens in the United States, and if it does, somebody will wind up in jail.

If you know if it happening, Mr. Ireland, I beg you to come forward so we can put somebody in jail, but I think it happens all the time in Mexico.

Am I right or wrong?

Mr. PADILLA. Sir, I think that, historically, there is a pattern.

However, there is a reality to who and what is in place at this point.

You yourself, by underscoring the fact that President Bush did meet with President Salinas, has shown that perhaps there is light at the end of this tunnel and the fact that a free trade agreement, for lack of any other term, may give the United States a way to influence——

Chairman LAFALCE. I wanted Bush to meet with Salinas in order to stabilize the situation in Mexico, and to discuss immediately what the United States might do to help lead the other nations of the world, and the private sector creditors of the world, to be more

lenient with Mexico with respect to its external debts and to engage in some type of debt forgiveness.

I also want to enhance our trade, but that is a big difference.

Mr. Watson, for example, has expressed the extremes in this debate; you are either for free trade or you are an isolationist.

You are either for free trade or you are not at the table.

I mean, such antipodal dichotomies may exist in somebody's mind, but not in the real world.

Please proceed.

Mr. PADILLA. Some of your points are well taken.

I understand there are certain realities one must deal with in life.

The realities are that we have trade going on now. We have reduction of barriers.

What we need to do is enhance the transparencies of our barriers.

We need to deal with the reality of it.

If we can use this agreement as a tool to do it, we can go from there.

Chairman LAFALCE. Mr. Padilla, tell me a little bit about the Manual Lujan Insurance Co.

How small of a business is that? How large a business is that?

Mr. PADILLA. It is a small insurance brokerage company. I am president of seven employees.

Chairman LAFALCE. A former Member of Congress?

Mr. PADILLA. Yes.

The company was founded by his father, and Secretary Lujan at one time was a member of this business, but no longer. When he came 20 years ago to Washington, he left a lot of that behind him.

Chairman LAFALCE. What are its gross revenues?

Mr. PADILLA. From gross revenues, $500,000 per year. It is a commercial, personal, and real estate brokerage firm.

Chairman LAFALCE. Mr. Urrabazo, I take it your bank, Laredo, Texas, is it? You must be involved in a number of transport or financial transactions.

Mr. Lewis and Mr. Black both referred to the type of transactions that would clearly be illegal within the United States; correct?

In your experience, is the type of transactions they refer to in Mexico an uncommon or common occurrence?

Mr. URRABAZO. Let me first address the voting issue you brought up.

Chairman LAFALCE. Can we go back to the voting and go to this issue first?

Mr. URRABAZO. I think they are the exception to the rule. I think it happens, but I think they are the exception to the rule.

I think there are lots of companies in the United States——

Chairman LAFALCE. Everything I have heard says this is the rule rather than the exception, Mr. Urrabazo.

Mr. URRABAZO. You have talked with General Motors, Ford, any of the majors; none of this goes on.

I talked to them as personal friends. I had dinner with them.

Chairman LAFALCE. You are saying this is something that goes on only in the small business sector?

Mr. URRABAZO. I am not saying that at all. I am just saying that it does happen, but I don't think it happens that much.

Chairman LAFALCE. We will allow you to come back to the voting issue.

Mr. Lewis and Mr. Black, other than your own personal experience, do you know whether this is something that is unique to you, or do you think this is fairly endemic?

Mr. LEWIS. I think for a smaller company, it is probably more the norm.

You mentioned GM and Ford. They have the clout of thousands of jobs and millions of dollars.

It is like the bully always picks on the weakest one.

Companies like mine, what are we going to do?

We either do business or we don't, and we don't have any clout to change that.

Chairman LAFALCE. So, the business roundtable may be unaware of this?

Mr. LEWIS. I don't think too many people want to talk about it.

Mr. Ireland, being a native Chicagoan, we do have the best politicians money can buy.

Chairman LAFALCE. I was at a dinner at the Institute of International Economics, and seated with me at a dinner table were Fred Bergsten, the executive director of the Institute, David Rockefeller, who you probably have heard of, and Paul Volcker. I remember them saying that you couldn't do anything in Mexico until you addressed the basic problem of corruption.

How do you deal with it? Nobody at the table had an answer for that. I remember that conversation very clearly.

I remember another conversation on this topic. I won't identify the source now publicly, but he commented, "If you think they were having a tough time negotiating a deal with Canada, those individuals were talking about negotiating a deal with Mexico. They must be smoking pot or something, given the type of problems that we have with Mexico." You would be surprised who that person was.

Mr. Urrabazo, you had some comments you wanted to make about the elections in Mexico?

Mr. URRABAZO. Basically, also, I don't know what goes on in the elections. However, there has been a tendency lately that most of the cities in the north have gone toward the option.

Chairman LAFALCE. Option for or against these free trade agreements? You have the PRD and then the PAN. Where do they stand on this issue?

Mr. URRABAZO. I don't know.

Chairman LAFALCE. Isn't PRD opposed?

Mr. URRABAZO. I don't know. PAN is considered very right——

CHAIRMAN. LAFALCE. A conservative party?

Mr. URRABAZO. Yes.

Chairman LAFALCE. Are they for or against this?

Mr. URRABAZO. Free Trade Act?

Chairman LAFALCE. Yes.

Mr. URRABAZO. I am not sure.

The other thing I would like to mention is most of the people we do deal with, and people who I know personally from Mexico, I

lived in Mexico, they were all treaty people, and it was an institution, and most of the people that I know of were part of the treaty.

Chairman LaFalce. Very often we deal only with individuals within the party in power; we might not see any others. When there is only one party of power, there is a tendency to only see that. For a while, the States would only deal with Gorbachev and not even see Yeltsin.

What about the judicial system in Mexico? Does anybody have any comments, any knowledge about that? If we had a contract that needed to be reinforced in Mexico, do we have a free court system, a free judicial system, or are they under the control of the government?

Mr. Black. I have had some experience with that, Mr. Chairman, through clients of mine and my own experience. Also, in connection with your earlier inquiry about corruption as it exists in Mexico, I had occasion to defend a client from Mexico in a rather lengthy and involved fraud case a couple of years ago, and during that case, part of the testimony, ironically enough, revolved around the fact that it is a common practice, a common business practice and a well-known business practice, that mordida is paid in Mexico, and that when one enters into a business transaction in Mexico, such payments are assumed. That was actually part of the defense.

I had occasion with another client who was involved in litigation in Mexico, and it was very involved and complex litigation between two families, and he told me that he lost that litigation, and the reason he lost that litigation was that he ran out of money not to pay his attorneys, but to pay the judges, and that if you expect to win in Mexico, you must pay the judges, and the one that pays the judges the most, wins.

Chairman LaFalce. I don't know about that at all, but I have heard a lot of stories, and I just don't know.

Mr. Black. In these particular cases, this client had nothing to gain by telling me this.

Chairman LaFalce. Mr. Urrabazo, do you think the Mexican peso is overvalued right now?

Mr. Urrabazo. To a certain degree it is.

Chairman LaFalce. To what degree? Perhaps 50 percent?

Mr. Urrabazo. No; 20–25 percent.

Chairman LaFalce. I had heard about 30 or 35 percent, but I don't know if this is correct. This has had quite a harmful effect upon the average Mexican, hasn't it? The standard of living of the Mexican has deteriorated, I understand, about 50 percent in the past 2 years. Is that correct?

Mr. Urrabazo. I believe so.

Chairman LaFalce. At some point in time, you can't sustain such losses. You are going to have to have a devaluation of the peso.

Mr. Urrabazo. Not necessarily. They are sustaining it right now.

Chairman LaFalce. Yes; but the only way they are doing it is by seeing the standard of living of the average Mexican go down, and down, and down.

Mr. Urrabazo. There are other exports, for instance. They are exporting some more and increasing their reserves.

Chairman LaFalce. Even so, realistically, aren't they confronted with two basic options, and one is to continue to artificially inflate——

Mr. Urrabazo. That is a function of productivity. If productivity is not there, then the markets will totally——

Chairman LaFalce. But they haven't been able to increase their productivity anywhere near enough to compensate for the inflated value of the peso, have they? Given the fact they haven't been able to improve their productivity, you have seen a decline in the standard of living of the average Mexican of about 50 percent.

Now, assuming they are not able to make these huge increases in productivity in the future, you are either going to see a continual slide in the standard of living of the average Mexican or some type of devaluation of the peso.

Mr. Urrabazo. Or free trade that will integrate the economies.

Chairman LaFalce. I mean, are you really looking upon free trade, Mr. Urrabazo, as a substitute?

Mr. Urrabazo. Certainly not. I am saying that would be part.

Chairman LaFalce. Every economist I know says there is an inevitability of the decrease of the peso. When it does come, will this not increase the wage disparity between the average U.S. laborer and the average Mexican laborer even more?

Mr. Urrabazo. I don't think so. I think if we had an integrating of the economies, I think maybe not in the short term, but certainly the middle term, 5, 6, or 10 years down the line, I think those disparities in productivity certainly will increase, and Mexico should be able to compete to a certain degree.

Chairman LaFalce. Any other questions?

Mr. Ireland. I would only touch on, as adding to the debate, whether there is a sufficient—to our standards—justice system or, indeed, if there are business practices that are in Mexico which are not unlike, in reality, most of the Third World. I find it hard to say that to whatever extent that does pertain—and I don't think it is as pervasive as Mr. Black—I don't know Mr. Black's business. Maybe Mr. Black's business wasn't any good, either. Who knows?

I think the main thing is, as Mr. Padilla says, an awful lot of progress has been made. This country of ours, that we love so much, didn't get to its heady position of what is right and wrong overnight, and how business is done, and if we give up on our neighbors, it would seem to me that we don't really reflect on history and development.

Our neighbors are, certainly in the case of Mexico, making substantial progress, again, the light at the end of the tunnel, You, indeed, deserve substantial credit, Mr. Chairman, in your thrust toward leniency, debt forgiveness embodied in the new Brady plan, and I would suggest that if, indeed, things were so bad and not worth trying to improve, most certainly you wouldn't have suggested—because who, after all, would want to be lenient unless they thought these so-called business dealings and corruption weren't going to improve?

I would like to end by saying yes; sufficient progress has been made. Yes; we need additional progress. The Mexican people who have become citizens of this country certainly have made a wonder-

ful transition to upholding our values in business, in credit standing, in our judicial system.

The same people's heritage can improve it on the other side, and I would think one of the great benefits of a free trade agreement, a fair trade agreement, would be to help all these people, one more country, attain these things that we are so proud of.

Chairman LAFALCE. Thank you, Mr. Ireland.

I thank the members of the panel. I don't know what is going to happen with regard to the pending vote on fast-tract authority. I suspect the President is going to get his votes. I hope we proceed with our eyes wide open. To do otherwise could be disastrous for our economy.

I was closely involved in the Canadian Trade negotiations, and we couldn't come to agreement on the subject of subsidies, clearly one of our most important trade problems with Canada. What did we do? We left subsidies off the table. We said we will take care of that problem over the next 7 years or so.

I wonder if we are again going to leave the subject of subsidies, which are infinitely more pervasive in the Mexican scheme of things, off the table in this free trade agreement? We haven't been able to address this issue with Canada. We haven't been able to address it within the GATT.

In the negotiations with Canada, they also insisted upon avoiding key social issues, such as the national health insurance scheme. Our private sector provides that. The Canadian Government provides that. This was off the table.

From what I understand, Mexico wants to leave energy off the table. So, I think any agreement will be incomplete. Therefore, we should do as much as we can to achieve better economic relationships with Mexico, more liberalized trading arrangements. Pursue much, much more aggressively the whole subject of debt relief, with many conditions attached.

I never was for forgiveness of debt without a million conditions attached. I want the President to pursue vigorous negotiations with Mexico. But until it is flushed out a little bit more, until we know what he has in mind, I cannot provide any form of blanket approval. I would like to know if the President is going to insist upon some type of basic sine qua non—for example, with regard to the upcoming Federal election in August in Mexico. Will the President insist upon international observance of those Federal elections?

Mexico has rejected international observance of its elections. We have had freer elections in Nicaragua, in Chile, than we have had in Mexico. Maybe that explains why Mexico constantly supported the Sandinistas and Ortega and opposed the Contras, Chamorro, et cetera.

I remember when I met with President de la Madrid, and then-Foreign Minister Sepulveda. I said, this is a friend? I had serious questions regarding Mexico's support for the Sandinistas and its statements criticizing U.S. policy.

So, I am a little concerned that the Congress now appears so willing to go along and say, sure, Mr. President, go ahead, and we will limit our constitutional prerogatives to review whatever agreement is negotiated. We will debate this. I expect we are going to lose, and I am fearful of what might result from these negotiations.

I don't know whether we will be helping ourselves or the Mexican people. The ones we are going to be helping most, in my judgment, are the transnational corporations, which can be in any country in the world, and where they can advance their bottom lines as their primary interest.

Thank you very much.

[Whereupon, at 4:25 p.m., the committee was adjourned, subject to the call of the Chair.]

APPENDIX

STATEMENT OF

REP. JOHN J. LaFALCE, CHAIRMAN
COMMITTEE ON SMALL BUSINESS

HEARING ON U.S.-MEXICO FREE TRADE NEGOTIATIONS

April 24, 1991

The President's proposal to initiate free trade negotiations with Mexico has generated a significant and growing controversy. Congress faces a critical vote on this issue in the next month that could have significant repercussions both on our economic and political relations with Mexico and on the U.S. role in concluding the broader Uruguay Round GATT negotiations. The proposed Mexican agreement, and a broader North American free trade agreement, are important initiatives that deserve careful consideration by the Congress.

The Bush Administration is promoting the Mexican agreement as the centerpiece of huge and prosperous North American free trade zone that would strengthen U.S. competitiveness, promote economic growth and assure regional peace and stability. In Administration speeches on the proposal, free trade becomes a panacea for all the nation's economic woes.

Unfortunately, we have had little informed debate on this proposal. This is due, in large part, to the unusual and highly questionable circumstances under which Congress must address the proposed trade negotiations. Congress is being pushed into a substantive vote on a trade agreement that has not even been negotiated! We have little information on the scope of a possible agreement, and even less information on what industries will be affected and how it is to be implemented.

While the issue confronting Congress is ostensibly procedural --the extension of fast-track negotiating authority--in practical terms it may well have the effect of providing advance approval for almost any trade agreement the Administration chooses to negotiate. It becomes imperative, then, for Congress to go beyond theoretical discussions of free trade to obtain the type of detailed economic analysis needed to make an objective judgement of the economic merits of entering a trade arrangement with Mexico.

One of the few economic studies available on the potential impact of a Mexican free trade agreement was released in February by the International Trade Commission. The ITC's analysis found that an agreement would benefit the U.S. economy slightly in the short-run, but that benefits would increase with expansion of the Mexican economy. In assessing potential gains and losses, the study found that some industries and sectors would lose production

and jobs and that unskilled workers generally would suffer a "slight decline in real income."

The ITC's report is important in identifying what, I believe, is the core issue that Congress must address in considering the proposed trade agreement. The U.S. will lose jobs at least initially, according to the report, but will benefit over time through increased export sales and job creation as the Mexican economy expands. The key issue, then, is whether the Mexican economy can experience growth sufficient to produce reciprocal benefits to the U.S. economy.

In a statement which I circulated to House members in February I attempted to identify a number of critical problems in the Mexican economic and political structures that pose potential roadblocks to the type of broad-based economic growth anticipated in the ITC's report. Indeed, such development would require substantial domestic and foreign investment in production facilities and long-term capital improvements, together with a major redistribution of economic benefits to enhance the living standards and the purchasing power of the mass of Mexican workers.

Numerous factors suggest that this level of economic growth is unlikely. Eight years of debt crisis and devaluation have created a severe capital shortage that has left Mexican business and government dependent on foreign investment. The investment that is occurring is concentrated on short-term securities, with little capital available for new capital expansion or improvement of the country's decaying infrastructure. Needed domestic and foreign investment continues to be deterred by the weak legal and political foundations of many of the government's recent economic reforms. And capital flight continues to undermine the economy's ability to generate substantial investment capital.

Given these and other impediments to economic growth, I must question the potential success of any trade agreement that does not attempt to address the broad structural problems of the Mexican economy. American policy toward Mexico should seek to encourage greater liberalization of the economic process, including development of policies to encourage long-term investment and repatriation of Mexican assets, as well as measures to assure that Mexican workers share in the benefits of economic improvement. Without such structural reforms, I fear we will be throwing U.S. jobs away in a free trade arrangement that merely perpetuates economic inequities in Mexico and creates a low-wage platform for entry into U.S. markets.

The purpose of today's hearing is to assess the potential impact of a Mexican free trade agreement on the U.S. economy, both from the standpoint of possible losses of American jobs and potential gains from new demand for U.S. goods and services. In particular, the hearing is intended to initiate discussion of key "structural" problems in the Mexican economy that have not been adequately addressed in the current Congressional debate.

STATEMENT OF

CONGRESSMAN DAVE CAMP

**BEFORE THE
COMMITTEE ON SMALL BUSINESS**

April 24, 1991

HEARING ON THE U.S. - MEXICO FREE TRADE AGREEMENT

Mr. Chairman, it is obviously very timely that we are here today. The subject of trade effects nearly every aspect of our nation's economy -- including small businesses. This morning I am having the chance at the House Agriculture Committee to hear from Agriculture Secretary Ed Madigan, Labor Secretary Lynn Martin and United States Trade Representative Carla Hills on the extension of fast-track authority, as well as the U.S. - Mexico Free Trade Agreement and its effects upon the agriculture community. This hearing I hope will enlighten us about the impact of freer trade on our nation's small businesses.

This is a time when the U.S. faces the best opportunity ever to expand its markets abroad. With the crumbling of the Berlin Wall, Eastern Europe is becoming more open to trade. In Western Europe, with EC 92 just around the corner, we face many challenges as well as opportunities. We have begun to open barriers to freer and fairer trade in North America with the U.S. - Canada Free Trade Agreement. A Mexico agreement offers the possibility that the North American continent will have an economic framework that provides each trading partner with the potential for stronger and faster growth. Moreover, it increases North America's clout in an emerging global economy, which undoubtedly benefits the United States.

But before we can take hold of these historic opportunities, we need to provide President Bush with the tools to expand trading opportunities. I support the fast-track approach because it allows

the President to have the same bargaining power that his counterparts have in other countries. Without that assurance, foreign governments are reluctant to negotiate with the United States.

Having said that, I also recognize that several agricultural industries are concerned about whether or not their industries will be treated equitably. Understandably, the constituents I represent in Michigan, as well as the constituents my colleagues represent, have unique concerns about trade policy. My district is largely rural and agricultural. There are many interests that will be affected by the proposals laid forth in the North American Free Trade Agreement and the Uruguay Round of GATT. Indeed my vote on a final agreement will depend on how the agreement effects certain agricultural interests.

A trade agreement with Mexico will help the United States benefit from greater market access and freer movement of capital. We are a nation that loves to compete and can compete with the best, as long as the trade playing field is fair and level. Before the ink is dry on a U.S. - Mexico Free Trade Agreement, I will continue to let the Administration know of my desire to obtain the best deal for American small businesses, their employees and consumers.

Mr. Chairman, thank you for holding this hearing today. As we begin to explore the opportunities a U.S. - Mexico Free Trade Agreement will offer, I am sure the testimony we will hear from our witnesses today will be both interesting and valuable.

JIM RAMSTAD
THIRD DISTRICT, MINNESOTA

JUDICIARY COMMITTEE

SMALL BUSINESS COMMITTEE

SELECT COMMITTEE ON
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April 24, 1991

Mr. Chairman, I want to commend you for holding this very timely hearing on the U.S.-Mexico Free Trade Agreement.

The 1988 U.S.-Canada Free Trade Agreement is an excellent example of how free trade benefits all trading partners. Since a Free Trade Agreement was concluded with Canada, trade has increased by $30 billion between the two countries, creating employment and investment benefits on both sides of our northern border. As we know, Mexico wishes to be included in a similar accord.

I represent a district in Minnesota, a state that has benefited greatly from expanded trade and enlarged export markets. There are over 95,000 jobs related to foreign trade in Minnesota, and almost 2,000 Minnesota businesses now export. In 1989, Mexico ranked ninth among Minnesota's 167 export markets.

While foreign trade has been contributing to half of the nation's recent economic growth, we must ensure that our trade policy breaks down the barriers to exporting for small businesses, so they get a share of growing export markets. Thus, as negotiations with Mexico go forward, it is important that this committee closely examine how small businesses will be treated under a Free Trade Agreement.

Mr. Chairman, I look forward to hearing the testimony of our witnesses today.

Congressman Jim Ramstad

STATEMENT OF CONGRESSMAN GLENN POSHARD

Small Business Committee

April 24, 1991

Mr. Chairman, I appreciate the opportunity in the Small Business Committee to examine proposed trade agreements with Mexico.

I have very grave concerns regarding our trade policies and the impact they have on American workers. In my southern Illinois district we have seen literally a dozen or more textile and shoe manufacturers driven out of business by imports produced by workers who barely earn enough to stay alive.

And those companies take well-paying American jobs with them. I am not at all anxious to continue that procession, and I believe fast track trade negotiations will guarantee that to happen.

Low wages and benefits, lax workplace safety, and a questionable environmental commitment all allow some competitors to avoid the costs of production borne by American competitors.

If we are too hasty to create a free trade zone we may only exacerbate that situation. There are too many questions still unanswered for me to feel comfortable to continue the Administration's fast track authority. I see very few issues the magnitude of this one coming to Congress with only the option to accept or reject the final product. There is too much at stake for American workers to rush ahead without more complete consideration by the Congress.

I believe we should be doing all we can to assist our neighbors and friends in Mexico to improve their quality of life. I am anxious to see how that might be accomplished through constructive negotiations and progressive business relationships without causing further hardships for American or Mexican workers.

Thank you.

International Union of Electronic, Electrical,
Salaried, Machine and Furniture Workers, AFL-CIO

William H. Bywater, International President - Edward Fire, Secretary-Treasurer

TESTIMONY OF WILLIAM H. BYWATER, INTERNATIONAL PRESIDENT INTERNATIONAL UNION OF ELECTRONIC, ELECTRICAL, SALARIED, MACHINE AND FURNITURE WORKERS (IUE), AFL-CIO

BEFORE THE SMALL BUSINESS COMMITTEE

U.S. HOUSE OF REPRESENTATIVES

ON THE PROPOSED U.S.-MEXICO FREE TRADE NEGOTIATIONS

APRIL 24, 1991

TESTIMONY OF
WILLIAM H. BYWATER, INTERNATIONAL PRESIDENT
INTERNATIONAL UNION OF ELECTRONIC,
ELECTRICAL, SALARIED, MACHINE AND
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BEFORE THE
HOUSE SMALL BUSINESS COMMITTEE
ON
THE PROPOSED U.S.-MEXICO FREE TRADE NEGOTIATIONS
APRIL 24, 1991

Members of the Committee, I am William H. Bywater, President of the International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers (IUE), AFL-CIO. On behalf of the working men and women represented by the IUE, I appreciate the opportunity to submit this statement on the Bush Administration's proposal to negotiate a free trade agreement ("FTA") with Mexico. It is our view that this agreement would be devastating for millions of American workers and do severe damage to our economy overall.

The IUE represents production and maintenance workers in a wide spectrum of industries, including electrical-electronics, transportation, fabricated metal, power-generation equipment, furniture, and automotive parts. At one time, our union had 360,000 members. Today we have 165,000. This dramatic decline in membership has been due, in large part, to our members having been displaced, as their employers have cut back or completely closed their U.S. operations in favor of offshore lower wage labor markets. While millions of American homes now contain color televisions, compact disc players, major appliances, and other electronic goods with American brand names, the majority of these products are no longer made in this country. <u>The United States already has lost entire industries -- radio and black and white television manufacturing are but two examples -- and many others are sure to follow if exploitation of cheap foreign labor continues to be a cornerstone of U.S. trade policy</u>.

Cheap labor, however, is precisely the foundation of the proposed agreement with Mexico. "Free trade," as contemplated by the Bush Administration, means that all workers are put into competition with the most impoverished workers in the world. It does not mean decent wages and full employment. Indeed, for FTA proponents, Mexico's most outstanding attraction is the poverty of its citizens and their corresponding willingness to work for subsistence wages. The skill and productivity of American workers become irrelevant in this context. Under no circumstances can U.S. workers compete with Mexican workers who earn, on average, 59 cents per hour. A free trade pact between countries of such unequal economic status is, in fact, unprecedented.

IUE members know first-hand from our experience with the Mexican maquiladora program what happens when companies are given incentives to go abroad for cheap labor. The "maquiladoras" are assembly plants that have been established in Mexico by foreign corporations. Ninety-percent of them are U.S.-owned. Maquila workers are paid the abysmal wage of 60 to 70 cents an hour.

Electronics manufacturing and assembly now constitute the third largest Maquila industry. During the past decade, many of our employers, including Bendix, Chrysler, General Electric, General Motors, Litton Industries, North American Philips, RCA, Sylvania, United Technologies, Westinghouse and Zenith, have abandoned assembly operations in this country and relocated them to maquila plants across the Rio Grande. In Mexico's northern border region, maquila workers assemble a wide variety of products which are made -- or were once made -- in the U.S. by IUE members. These products include radio and TV components, electrical and electronic sub-components, auto parts and components, household appliances, transformers and furniture.

Our experience with the maquiladora program offers a preview of what American workers may expect from a free trade agreement with Mexico. The proposed pact would vastly expand the territory from which companies could recruit low-wage workers. It would increase opportunities for multinational corporations to circumvent U.S. laws intended to protect workers and the environment.*

It is a widespread practice of American-based companies to make components of a product here, ship them to their maquila plants over the border for assembly, and then return the finished product to this country for sale. Currently, about 95% of the components used in the maquilas are produced in the U.S. A recently issued study by the U.S. International Trade Commission concludes that the proposed pact would allow Mexico to produce more of the component parts for use in the maquiladoras. Such a shift would mean the exportation of even more jobs from this country.

Five years ago, U.S. firms had invested nearly $2 billion in the maquilas and we had lost nearly 300,000 manufacturing jobs. Since 1986, many American-based companies have expanded their existing operations in Mexico, and many new companies have begun investing there. There are now some 2,000 maquilas along the border, employing nearly a half million Mexican workers.

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* Indeed, the realities of the maquila program undercut the assurances now being offered by FTA proponents that the FTA will be good for Mexican workers and that the Mexican government is committed to strengthening environmental, public health, and worker protections. Most maquila plants pose severe health and environmental risks to workers, nearby communities, and even the U.S. Within the plants, dangerous working conditions and improper management jeopardize worker safety. Outside the plants, including in the U.S. border regions, polluted water and air and hazardous waste threaten public health and the environment. Given that it is the cheap cost of doing business which draws desperately needed capital to Mexico, the Mexican Government has little incentive to support any change.

General Dynamics, one of America's largest defense contractors, announced plans earlier this year to open a 200 worker plant in Tijuana to produce electrical components for its defense-related products. This announcement highlights a concern of our union that goes beyond considerations of domestic employment. Roughly one-third of our members work in defense-related industries. Our experience with many of this nation's largest defense contractors, as well as with smaller defense suppliers and parts manufacturers, tells us that the capacity of the United States to maintain a viable defense industrial base within our own borders is being threatened. Defense contractors are among the many companies -- encouraged by U.S. trade and tax policies -- seizing the opportunity to exploit cheap Mexican labor. The folly of depending on foreign sources for our military defense should be self-evident.

Such investment abroad has not been without domestic repercussions. The number of workers officially counted as unemployed is now 8.6 million. When the millions of others who have been forced to accept part-time employment are counted, along with those who are too discouraged to continue their search for work, the total number of Americans suffering from partial or total income loss is a staggering 15.8 million. Moreover, less than half of those "officially" unemployed were drawing jobless benefits at the end of last year. Employment in the manufacturing sector declined by 310,000 since the beginning of the year, continuing a downward trend. Since the beginning of 1989, a total of 1.2 million manufacturing jobs have been lost. From 1979 to 1990, the U.S. manufacturing sector shrank from 23% of domestic employment to only 18%.

Our members are outraged that the Bush Administration is insisting on forging ahead to negotiate an FTA with Mexico against this backdrop of recession, job loss, and increasing demands from employers that U.S. workers accept wage and benefit cuts, rather than improvements. We are also appalled that the Administration is seeking fast track authority for the negotiations. The ramifications of this proposal are far too broad and serious for it to be negotiated without the full involvement and input of the Congress.

The following are but a few examples of the disastrous impact that our economic relationship with Mexico already has had on IUE members:

1. IUE Local 748, Jefferson City, Tennessee: In 1978, with over 2,000 production workers, the North American Phillips Consumer Products Division ("NAP") was one of the largest employers in this rural area of Eastern Tennessee. IUE members made electronic components for televisions and video games, and television cabinets for Magnavox, Philco and Sylvania.

In 1982, the company shifted production of a popular new high-tech product, the Odyssey video game, and laid off 950 of their Jefferson City workers. Eight hundred jobs were relocated to Mexico and 150 jobs went to another NAP facility in the U.S. Why? With wages at only $5.40 an hour, NAP was hard-pressed to argue that its labor costs were making it unprofitable. Indeed, the company did not even try to seek wage concessions from the local union because it realized that even at minimum wage, the Tennessee workers could not possibly compete with Mexican workers. In Mexico, NAP could pay their workers just <u>65 cents an hour</u> -- <u>$5.20 a day</u>.

By 1986, the 840 workers represented by IUE at this facility no longer did any electronic component manufacturing. They made only television cabinets. All of the electronic components that go into the cabinets were already being assembled in Mexico. And, when it was time to renegotiate our collective bargaining agreement, the company repeatedly "reminded" us of their seven plants in Mexico.

Today, the membership of IUE Local 748 has shrunk to 550. Several months ago, local NAP management bid on a contract for 30,000 console television cabinets for Curtis-Mathis. The contract they received was for only 6,000 projection TV cabinets -- the other 24,000 cabinets will be made in Mexico.

2. <u>IUE Local 849, Evansville, Indiana</u>: In 1986, the IUE represented 850 Zenith workers at the company's two plants in Evansville. Today, we no longer represent any Zenith workers there. Both plants have been closed. The work was moved to Mexico. One thousand hourly and salaried Evansville workers lost their jobs, devastating many families and the community. Among those who lost their jobs were workers who had been with Zenith for more than 20 years.

3. <u>IUE Local 761, Louisville, Kentucky</u>: Three years ago, when GE purchased the Roper Company, our local union officers were told they could expect 600 new jobs. None of those jobs materialized, however. The Roper range is being built in Mexico.

4. <u>IUE Local 218, Warwick, Rhode Island</u>: In 1987, 550 wiring assembly jobs at this GE plant were lost to Mexico. Today, no wiring work at all is done at this plant. The 28 workers who remain manufacture lighting controls.

5. <u>IUE Local 717, Warren, Ohio</u>: In 1973, IUE represented some 13,000 production workers at this GM, Packard Electric Division. In 1974, GM moved 2,200 jobs to two new non-union plants in Mississippi, and began to build three new plants in Juarez, Mexico. By 1975, the plants in Mexico were completed and employed a workforce of 7,000. By 1986, GM's Packard Division had seven plants along the Mexican border, with more than 15,000 workers. Meanwhile, employment at the Warren, Ohio facility had shrunk to 9,000. Today, GM has twenty-four manufacturing plants in Mexico, employing <u>23,700</u> workers. Only 8,200 jobs remain in Warren.

6. IUE Local 463, Brooklyn, New York: The Parker Hannifan Ideal Clamp Division in Brooklyn is now closed. In the early 1980's, some 600 workers were employed there. Then, the company opened a plant in Matamoros, Mexico and 300 American workers lost their jobs. In 1986, the company closed down what was left of the Brooklyn plant.

7. IUE Local 255, Pittsfield, Massachusetts: Fifteen years ago, GE employed some 15,000 workers in Pittsfield. By 1987, employment was down to 5,000. Today, only 1,000 hourly jobs remain. In September of last year, another 60 jobs -- wiring jobs for a defense project, the Aegis Director -- were lost to Mexico. The reason given by the company? GE claimed it was more competitive to have the work done there, rather than pay $12.00 an hour to American workers.

8. IUE Local 731, Memphis, Tennessee: IUE members at this GE plant assemble all types of lights for automobiles, i.e. head lamps, directional signals, and brake lights. In 1989, some 400 workers were employed at this plant, with assemblers averaging $10.00 per hour, and inspectors averaging $17.00 per hour. Between May and June of 1990, forty-four workers, all of them women, were laid off. Their jobs went to a GE plant in Ciudad de Acuna, Mexico. Shortly thereafter, the company announced that additional jobs would be moved to Mexico.

9. IUE Local 840, Troy Illinois: Since 1982, employment at Basler Electric has declined, as $7.50/hour jobs have been relocated to Reynosa and Matamoros, Mexico. The company has moved the entire magnetics assembly operation to Mexico. While Basler Electric currently provides 430 jobs, local union officers estimate that there would now be some 650 jobs at this plant, if the magnetics work had not been lost to Mexico.

10. IUE Local 806, Kirkland, Indiana: This example is pertinent to the Committee's particular inquiry regarding small business. Many IUE members are employed by small companies which rely on larger corporations for their business. For example, Delco Products, a General Motors subsidiary, subcontracts to AES Interconects, an IUE employer in Kirkland, Indiana. IUE members at this plant make wire harnesses and earn $5.00 an hour. The business there has been threatened and the jobs of our members lost because Delco turned to another supplier across the border.

In October 1990, twenty-eight people were employed at this plant. Then, in November, Delco shifted a $45,000 order to a maquila in Delanosa, Mexico, and AES was forced to reduce the workforce to fourteen. One month later, again because of reduced demand, AES laid off two more women.

Our union could provide this Committee with many other examples of IUE members who have lost their jobs because their employers either moved production to Mexico or were forced to close because they were unable to compete with other companies already producing in Mexico or other low-wage havens abroad. There are, in addition, thousands of other IUE members and other American workers have been forced to accept inferior wage and benefit agreements because their employers threatened to move their jobs to Mexico.

The economic joining of Mexico and the U.S. will have serious ramifications for both nations. In the United States, the proposal will increase unemployment by giving American-based corporations a "green light" to shift more and more work out of this country. It will discourage domestic investment in technology, machinery and worker education and training, and will lead to the further erosion of our industrial base. The American workers represented by the IUE do not understand why the Congress would even contemplate fast track negotiations, and thereby give up its prerogative to amend an agreement that will have such major repercussions. The stakes simply are too high for this agreement to be subject to a Congressional "gag order," rather than to full scrutiny, debate and consideration. We urge the Congress, at the very least, to disapprove fast track authority for the free trade negotiations.

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STATEMENT OF JEFF FAUX, PRESIDENT
ECONOMIC POLICY INSTITUTE
BEFORE THE HOUSE SMALL BUSINESS COMMITTEE
U.S. HOUSE OF REPRESENTATIVES
ON THE
PROPOSED U.S.-MEXICO FREE TRADE NEGOTIATIONS

APRIL 24, 1991

SUMMARY STATEMENT OF JEFF FAUX
REGARDING THE PROPOSED TRADE AGREEMENT WITH MEXICO

1. THE TRADE AGREEMENT PROPOSED BY THE ADMINISTRATION WILL RESULT IN A NET LOSS OF JOBS AND INCOMES FOR U.S. WORKERS. THIS IS BECAUSE THE CAPACITY OF THE MEXICAN ECONOMY TO PRODUCE PRODUCTS NOW MADE IN THE U.S. AND EXPORT THEM BACK HERE IS FAR GREATER THAN ITS CAPACITY TO IMPORT U.S. GOODS. <u>THE ATTRACTION OF MEXICO FOR U.S. BUSINESS IS NOT MEXICO'S SMALL MARKET, BUT ITS LARGE LABOR FORCE WILLING TO WORK FOR LOW WAGES IN UNREGULATED AND UNSAFE WORK SITES</u>.

2. THE FTA WILL ENCOURAGE U.S. PRODUCERS TO RESPOND TO INTERNATIONAL COMPETITION BY SEEKING LOW WAGES, RATHER THAN BY INVESTING IN PRODUCTIVITY IMPROVEMENT AND INNOVATION.

3. THE STUDIES FINANCED BY THE ADMINISTRATION AND OTHER BACKERS OF THE FTA (E.G., ITC, PEAT-MARWICK, CLOPPER ALMOND) WHICH ALLEGE ONLY MODEST NEGATIVE IMPACTS ON THE U.S. LABOR FORCE <u>ARE DESIGNED TO PRODUCE THAT RESULT</u> BECAUSE THEY ASSUME THERE WILL BE NO SHIFT IN INVESTMENT, AND THEREFORE JOBS, FROM THE U.S. TO MEXICO. THEREFORE THE STUDIES DO NOT ADDRESS THE PRINCIPAL CONCERNS WITH THE FTA. EVEN SO, THE ITC REPORT REVEALS THAT A MAJORITY OF U.S. WORKERS WILL SUFFER REAL INCOME LOSSES. THE WEAKNESS OF THE ADMINISTRATION'S STUDIES REVEALS THE WEAKNESS OF ITS ECONOMIC CASE.

4. THE OVERWHELMING MAJORITY OF U.S. WORKERS WHO LOSE THEIR JOBS TO IMPORT COMPETITION ARE RE-EMPLOYED AT MUCH LOWER WAGES -- WHEN THEY ARE REEMPLOYED AT ALL.

5. IT IS MISLEADING TO COMPARE THE U.S.-MEXICO TRADE AGREEMENT WITH THE ENTRANCE OF SPAIN AND PORTUGAL INTO THE EUROPEAN COMMUNITY. U.S.-MEXICO WAGE GAPS ARE MUCH GREATER, MEXICO HAS A LARGER POPULATION, AND THE E.C. HAS RETRAINING, SAFETY NET AND SUBSIDY PROGRAMS UNKNOWN IN THE U.S.

6. PROMISES THAT MEXICO WILL STRENGTHEN ENVIRONMENTAL AND WORKER PROTECTION ARE UNRELIABLE. SUCH PROTECTIONS ARE MADE EFFECTIVE BY STRONG INSTITUTIONS -- THE JUDICIARY, ENVIRONMENTAL AND LABOR GROUPS -- <u>INDEPENDENT</u> OF GOVERNMENT. THESE DO NOT EXIST IN MEXICO TODAY.

7. MEXICO'S PRIMARY ECONOMIC PROBLEM IS NOT TRADE, BUT DEBT. THE ADMINISTRATION'S PROPOSAL IS AN EFFORT TO HAVE U.S. WORKERS PAY WITH THEIR JOBS AND INCOMES FOR THE BAD LOANS MADE TO MEXICO BY FIRST WORLD BANKS AND INTERNATIONAL LENDERS.

8. NORTH AMERICAN ECONOMIC COOPERATION AND INTEGRATION IS A WORTHY GOAL. BUT IT NEEDS A MUCH BROADER FRAMEWORK. THIS SHOULD INCLUDE:

-- DEBT RELIEF FOR MEXICO;

-- A PLAN TO REVERSE CAPITAL FLIGHT FROM MEXICO;

-- HARMONIZATION OF LABOR AND ENVIRONMENTAL PROTECTION PRACTICES;

-- POLITICAL LIBERALIZATION IN MEXICO;

-- POLICIES TO ASSURE THE SUCCESSFUL ADJUSTMENT OF U.S. WORKERS, INDUSTRIES AND COMMUNITIES.

9. A MORE COMPREHENSIVE APPROACH CANNOT BE ACCOMPLISHED ON A "FAST-TRACK" BECAUSE THE ADMINISTRATION IS NOT INTERESTED IN IT. THEREFORE, ONLY A REJECTION OF FAST-TRACK WILL CONVINCE BOTH WASHINGTON AND MEXICO CITY TO DESIGN AN ECONOMIC PACKAGE THAT BENEFITS BOTH SIDES OF THE BORDER.

10. OBJECTIONS THAT NO AGREEMENT IS POSSIBLE WITHOUT FAST-TRACK ARE NOT CREDIBLE SINCE MANY INTERNATIONAL AGREEMENTS ARE MADE THROUGH THE NORMAL PROCESS. NOR, GIVEN THE APPARENT POLITICAL BENEFITS TO THE SALINAS ADMINISTRATION IN MEXICO, SHOULD WE BE CONCERNED THAT THE MEXICAN GOVERNMENT WILL WALK AWAY.

11. THE MUCH GREATER DANGER IS THAT OF A MAJOR POLICY BLUNDER SIMILAR TO THOSE MADE IN THE RECENT PAST WHEN CONGRESS WAS STAMPEDED INTO POLICIES BASED ON DUBIOUS ECONOMIC THEORIES. FOR EXAMPLE: THE FISCAL DEFICIT AND THE SAVINGS AND LOAN DISASTERS.

Economic Policy Institute

Briefing Paper

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FAST TRACK, FAST SHUFFLE

THE ECONOMIC CONSEQUENCES OF THE ADMINISTRATION'S PROPOSED TRADE AGREEMENT WITH MEXICO

By Jeff Faux and Richard Rothstein

Introduction

The Bush Administration has notified the Congress of its intention to negotiate a Free Trade Agreement (FTA) with Mexico and its desire to have the ratification of such an agreement put on a special legislative "fast track." The legislation authorizing a fast-track for trade treaties -- originally intended for GATT agreements -- expires this Spring. Congress must act by June 1 to decide on a renewal of fast-track authority and whether to allow its use for the Mexican FTA.*

The immediate question before the Congress is ostensibly procedural, but in practical terms, *a decision on fast track is also a judgment on the specific version of a U.S.- Mexico agreement that the Administration intends to negotiate.* Once the Congress has agreed to fast track, its options and powers will be severely limited. Amendment is impossible, and rejection is improbable, inasmuch as it will be seen as an affront to Mexico and Canada and an undermining of U.S. international credibility.

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* The Mulroney Administration in Canada, with whom the U.S. now has a free trade agreement, has recently agreed to join the talks. But the critical question for the Congress is the U.S.-Mexican economic relationship, to which this report is addressed.

Thus, the decision on fast-track implies an answer to two questions:

1. Is the Administration's notion of an FTA obviously so good that the risks of rushing into a major policy blunder are negligible?

2. Are the consequences of rejecting the fast track so dire as to justify the risks of a rush to approval?

An examination of the evidence clearly leads to a negative answer to both questions.

As the following analysis shows, the potential economic costs vastly outweigh the potential benefits, and major damage both to U.S. competitiveness and to balanced economic development in Mexico is the logical outcome. The FTA as presently conceived will mean a net loss of income and employment to substantial numbers of U.S. working families, a significant shift of U.S. production to Mexico and a weakening of U.S. environmental, health and safety standards. Over the long run, it will encourage U.S. producers to meet international competition not by improving their products and productivity, but by reducing the wages -- thus, the living standards -- of the U.S. workforce. By making, in effect, low wages in Mexico the centerpiece of U.S.-Mexico integration, an FTA could cause living standards for working people in both nations to decline.

The eventual integration of the economies of North America is potentially a worthy goal. But it is a complex and risky task and must be carefully designed to support prosperity in both nations, rather than undermine it. Thus, the FTA negotiations should only take place in the context of broader economic development strategies for both nations. To permit careful consideration of these complex issues, *fast track should be denied.*

The FTA and Abstract Theory

Much of the argument in favor of the U.S.-Mexico Free Trade Agreement is simply a restatement of the theory that free trade always brings benefits to both parties. As most economists understand, economic theory guarantees such an outcome only when certain ideal conditions are satisfied (full

employment, absence of economies of scale, static comparative advantages, and frictionless entry to and exit from markets).[1] Inasmuch as these conditions are rarely met in the real world, whether freer trade will result in net costs or net benefits depends on the specific case.

FTA proponents often point to the experiences of South Korea or Taiwan as examples of the potential of the Mexican economy for rapid growth based on free trade with an export orientation. But actual experience suggests the opposite conclusion. Nations like Korea and Taiwan grew by keeping their domestic markets protected from outside competition, by keeping wages artificially low, by tight controls over capital investment, and with heavy government subsidies, including aid from the United States. If East Asia is the theoretical inspiration for Mexican development, then the free trade model does not apply.

Ironically, the inadequacy of free-trade theory as a guide to the costs and benefits of the Bush Administration's FTA is reflected in the most comprehensive case *for* the FTA -- the report of the U.S. International Trade Commission (ITC), to the House Ways and Means and Senate Finance Committees in February, 1991.[2] On the basis of a general belief in free trade, the report asserts that an FTA will benefit the U.S. economy overall by "expanding trade opportunities, lowering prices, increasing competition, and improving the ability of U.S. firms to exploit economies of scale," and that these benefits "are likely" to outweigh the costs. But the actual analysis made by the ITC of the specifics of U.S.- Mexico economic integration leads to the opposite conclusion, i.e., that the costs will far outweigh the benefits.

The Illusion of Gains from Exports

Despite its assertions, the ITC study quantifies neither benefits nor costs. It gives us no numbers on job or income gains or losses. This is clearly because the researchers understand that *no such numbers are credible.* Other proponents have not been so careful: Professor Rudiger Dornbusch, for example, told the Senate Finance Committee that "Assuming that Mexico runs

a trade deficit of 2 percent of GNP, U.S. job creation over the next five years could be as high as 150,000."[3]

But no U.S. export "boomlet" is likely to occur. The ITC's own analysis tells us why. First, despite a population of almost 90 million, the overwhelming bulk of the Mexican people, suffering from high unemployment and low wages, simply do not have the purchasing power to consume many American-made products. Mexico's money economy is tiny: As a share of U.S. Gross Domestic Product, Mexico's GDP in 1989 was 3.6 percent.

Secondly, U.S. export gains from an FTA will be small because most trade between the two nations is already free as a result of trade liberalization begun in 1986. Today, Mexico's average tariff is only 6 percent. Non-tariff barriers have also been dismantled. Only 19 percent of Mexican import value now requires import licenses, down from 100 percent just ten years ago.[4] The trade liberalization of the last five years released the pent-up demand for U.S. consumer goods by the small Mexican middle class, whose purchases of U.S. goods had previously been restricted by import barriers. As a result, between 1986 and 1989, U.S. exports rose and our trade deficit with Mexico narrowed from 4.9 to 2.2 billion dollars. As the ITC concludes, this argues against further dramatic expansion in the future because these gains have already been made.

The very small potential of the Mexican market is illustrated by an ITC scenario, which assumes that the Mexican economy would grow by an extraordinary 2 percent per year because of an FTA. This works out to a net increase in U.S. exports over 20 years of a minuscule 0.16 percent of U.S. Gross Domestic Product.[5] This figure is less than the measurement error that exists in the estimate of the U.S. GDP. Claims that such a tiny market will create "new economies of scale" for American export firms are simply not credible.

The Reality of Losses from Imports

The negative impact of an FTA on U.S. jobs and income has been grossly understated by Administration supporters. Proponents' assertions that short term losses for U.S. workers will be made up by long term gains are contradicted by the evidence, which indicates that the losses be widespread and hurt some people substantially -- particularly those working families who already suffered real wage decline in the 1980s. As U.S. companies shift more of their production to Mexico, these losses will grow more severe with time.

A. Low-Wage Production

Proponents claim that losses will be limited to a few, primarily low wage sectors of the U.S. economy (e.g., apparel, glass, fruits, vegetables, and trucking). But according to the ITC report, "unskilled workers in the United States would suffer a slight decline in real income." The ITC does not quantify the words "slight decline" nor does it tell us exactly how many people it thinks will be affected, but no one should be misled by the term "unskilled." According to the definitions used by the ITC study, *this refers to 73 percent of all U.S. workers!*[6]

The report goes on to say that U.S. "skilled workers and owners of capital services would benefit more from lower prices and thus enjoy increased real income." Thus, the trade-off is between loss of jobs and incomes for three-fourths of the U.S. workforce on the one hand and lower consumer prices for the highest income Americans on the other (ITC Report, pp. 2-6).

Among the workers who would be hurt most are the poorest and least mobile. The U.S. apparel industry, for example, while declining under pressure of import competition, still employs over 1 million workers who are disproportionately disadvantaged minorities, immigrants, and rural Americans for whom there are few alternatives. Also hurt would be the large number of U.S. workers who have suffered major real income losses over the past decade, particularly the three-quarters of the U.S. workforce without a college degree. Between 1979 and 1987 (the last year for which data are available), the real

income of families headed by high school graduates aged 25-34 dropped 7 percent. Among white male high school graduates with one to five years' work experience, the drop in real weekly wages was 18 percent. Given the steady decline in real wages for American workers since 1987, we know that the economic squeeze among young working families is now even worse.

Proponents claim that the jobs lost to Mexico from an FTA are being lost anyway -- to Asia. Since Mexicans are likely to use their earnings to buy more U.S. goods than are people in Korea, Taiwan, Hong Kong or Singapore, the U.S. economy is better off if the jobs are lost to Mexico, according to this argument.

There is no evidence to support the assertion that a Mexican FTA would divert sufficient U.S. imports from Asia to Mexico to a greater extent than it would divert production from the U.S. to Mexico. Wages in the principal developing countries of Asia are already higher than in Mexico. In 1988, average hourly earnings (including fringe benefits) in the *maquiladora* zone were $0.98.[7] In Singapore they were $3.09; in South Korea they were $3.57; and in Taiwan, $3.53.[8] And there are obvious substantial transportation, communication, and response time advantages to producing in Mexico *now*.

B. Higher Wage Production

The lure of low wages is not limited to low-wage U.S. industries. When the *maquiladora* zone was established 25 years ago, the major activity was sewing garments. Today, less than 10 percent of *maquiladora* workers are in the apparel trades. Almost 40 percent work in electronics. Another 20 percent make transportation equipment (mostly autos).[9] Mexico now possesses automobile manufacturing plants as technologically advanced as any in the world. Their use of Mexican parts, including engines and transmissions, increases steadily. IBM, Hewlett-Packard, Wang, and Westinghouse are also among the major employers.

Maquiladora enterprises typically began with labor-intensive assembly operations. As management and labor skills improved, capitai became

available and Mexican industry is now moving up along the route that producers in Singapore, Taiwan, Korea, and now China have followed: establishing secure, low-wage, labor-intensive apparel and electronic assembly industries as the customer base for the development of increasingly sophisticated higher technology industries up the supplier chain.

Intellectual property protection in Mexico will further encourage the relocation of high-tech production there. It will also make U.S. manufacturers feel more secure about transferring technology to their Mexican operations. U.S. pharmaceutical firms (whose domestic employment will grow, according to proponents), for example, see potential for the expansion of their manufacture of pharmaceuticals *in Mexico*, once intellectual property reform is enacted.[10]

C. Losses from Shifting Investment

The ITC calculation of a negative impact on almost three-quarters of the U.S. workforce is even more dramatic when we consider that the Commission -- like virtually all of the proponents -- ignored the impact of the most important factor impacting U.S. living standards: the shift of U.S. investment to Mexico.

Despite its name, the primary purpose of a Free Trade Agreement for governments in both Washington and Mexico City is *not* to ease restrictions on the flow of trade; it is to increase the ability of U.S. multinational corporations to shift production to Mexico while keeping free access to the U.S. market.

Trade is already largely free. As Mexico has liberalized trade barriers, so has the U.S.. Tariffs on Mexican goods average about 3 1/2 percent, while half of all Mexican exports already enter the United States almost duty free (see ITC Report, February 1991, pp. 1-5).

Mexican restrictions on foreign investment -- with the major exception of petroleum and extractive industries -- have also been liberalized. Some restrictions remain. But more importantly, multinational corporations are reluctant to make the massive long-term investment in plant and equipment needed to take full advantage of cheaper costs in Mexico because of concern

over the political climate. Specifically, they fear a return of popular hostility to foreign investment and the threat of nationalization. Their solution is to put the rights of foreign investors into an international treaty that any future Mexican government would find difficult or impossible to change. As the ITC report notes: "by codifying liberal trade and investment policies in an international agreement . . . a U.S.- Mexico FTA would increase the confidence of investors in Mexico's economy."[11]

Despite this admission and despite the fact that it credits out-sourcing to Mexico with reducing U.S. companies' labor costs, the ITC report ignores any impact that the elimination of these political barriers to U.S. investment would have on U.S. jobs and living standards. At one point, the Commission tells us that such investment will be limited because of the small size of the Mexican money economy. But as we have seen, it is not Mexico's tiny domestic market that is of interest to U.S. multinational manufacturers, it is the labor force of almost 30 million -- roughly 25 percent of the U.S. labor force -- willing to work for subsistence wages. In order for U.S. producers to enjoy that resource, Mexico must be made safe for long term foreign capital investment. Therefore, the need for a treaty.

Of course, if US investment in Mexico grows, we can expect some shortrun increases in exports of US capital goods needed to equip the new industrial plants (although certainly not all of the new machinery will be bought from the U.S.) But this will not lead to a sustained net trade surplus for the U.S. nor a net increase in income and jobs for U.S. workers. Because the purpose of investment in Mexico is primarily to serve the U.S. market, any gain in U.S. export jobs will be more than offset by losses to imports and from reduced capital goods sales to U.S. caused by the diversion of investment to Mexico. Over time, as the production facilities in Mexico expand, the losses to US workers will grow. Indeed, scattered throughout the ITC's report are warnings that if U.S. investment in Mexico *does* increase substantially, job and income losses will be much higher than the Commission has guessed and will extend to those U.S. industries that the ITC now assumes will be gainers from

the FTA, such as automobiles and machinery. For example, because the Big Three automakers' actual intentions are today "unknown" to the ITC, the report does not consider the potential impact of a future investment shift on U.S. employment. Likewise, the U.S. machinery and equipment industry is presumed to gain from the treaty. Yet the study admits: "In the long run, and assuming that an FTA does not result in the equalization of wages and health, safety, and environmental standards, U.S. firms may accelerate the process of producing more finished machinery and equipment in Mexico" (ITC Report, p. xv). As the next section shows, the ITC does not really expect anything like an equalization of wages from an increase of wages in Mexico and is mute on the subject of environmental standards.

By elevating the rights of U.S. investors to treaty status, an FTA would also encourage investment from other sources: non-U.S. multinational manufacturers interested in building plants in Mexico for the cheap labor and access to U.S. consumers. There are today some 24 Japanese production sites in the *maquiladora* sector, with 50 more in the planning stage.[12] Any security given to American investors by an FTA would undoubtedly extend to other foreign investors as well, giving Asian and Western European firms access to the U.S. market without them having to produce here. It also would open up the opportunity for transshipping products or components made elsewhere through Mexico to the United States. There is serious doubt that either indifferent Mexican trade regulators or an understaffed U.S. Customs Service would have the capacity to identify the Mexican value-added component of the increased amount of goods that will be coming across the border.

Will The Wage Gap Shrink?

The wage differential between U.S. and Mexican workers is very large -- *at least* seven to one.[13] Proponent claim that this will decline dramatically. Among others, Deputy U.S. Trade Representative Julius Katz testified before

Congress that "wages in Mexico would rise very rapidly in the face of free trade."[14]

There is little evidence to support this optimism. Recent history suggests that wage levels in Mexico will not automatically increase with productivity and will depend far more on fiscal, monetary, and exchange rate policies than on a free trade agreement with the United States. Between 1982 and 1988 -- the period of Mexico's debt crisis -- Mexican wages fell about 50 percent in real terms. Its per capita gross domestic product declined by about 12 percent, largely as a result of austerity required by the nation's international creditors.[15] Mexican manufactured exports to the U.S. climbed at an average rate of 24 percent per year -- from $5 billion in 1982 to $18 billion in 1988.[16]

Despite this reality, proponents assert that as Mexican plants and workers reach U.S. levels of efficiency, the wage gap between the countries will automatically close. In his testimony before Congress, Professor Dornbusch said: "Although Mexican labor costs are low in relation to those in the U.S., these labor costs also reflect a low level of productivity."[17] But the overwhelming evidence is that wage differences between the U.S. and Third World nations far exceed productivity differences. One case study of automobile engine production, for example, showed Mexican plants operating at 80 percent of U.S. productivity while wages were 6 percent of U.S. rates.[18] Professor Dornbusch himself previously noted a weakness in the theory: "[one] argument that used to be advanced is that low wages in the NICs reflect low levels of productivity. That, too, is now understood to be wrong in many cases. Productivity levels in many industries are at the U.S. levels, but wages are only one-tenth of our level."[19]

Again, in its effort to make the best possible case, the ITC study is instructive. The only evidence for any narrowing of the wage gap at all is an old estimate that elimination of trade barriers that existed between the two nations in the 1960s would have reduced the U.S.- Mexican wage gap by 18 percent (ITC Report, pp. 2-5, 2-6). But even an 18 percent reduction would

still leave a huge wage gap. This estimate was made before the liberalization of the mid-eighties had eliminated most of the trade restrictions. In today's climate, even according to the ITC, the ratio of real U.S. to Mexican wages of skilled and unskilled workers combined would fall by "much less" than 18 percent.

Mexico's vast surplus labor pool will continue to restrain workers' wages. One million new jobs must be created each year just to keep up with increases in Mexico's labor force. This rate of job creation would require steady real economic growth of 6.5 percent a year. Additional job growth would be necessary to absorb Mexico's 8.5 - 10 million currently unemployed and underemployed workers. Such a growth rate is unrealistically high, even under the most optimistic assumptions about free trade. In 1988 real GDP grew by 1.1 percent, and in 1989, by 2.9 percent.[20]

Another factor limiting Mexican wage increases will be the probable displacement of large numbers of subsistence farmers who will not be able to compete with highly mechanized U.S. grain farmers in a free trade regime. Some Mexican farmers may find work in fruits and vegetables (which are not so mechanized) for export, but the net result will undoubtedly be the displacement of millions of peasants. Rural workers, flooding industrial labor markets, will put further downward pressure on wages which could more than offset any labor market tightening effects of increased investment.

Moreover, Mexico continues to be subject to adjustment programs dictated by the World Bank, the International Monetary Fund, and the Brady Plan. These programs are aimed at producing wage restraint in order to maximize export growth and to assure that resultant earnings will go toward debt repayment rather than higher wages and increased consumption. The Bush Administration has announced its intention to extend this austerity southward by negotiating trade agreements with every Latin American nation, provided they agree to such programs. Just as the threat (and reality) of plant relocation to Mexico has reduced manufacturing wages in the United States in

the last decade, so will the threat (and reality) of moves to the Caribbean Basin, Guatemala, or Venezuela restrain wage growth in Mexico.[21]

Finally, although in discussions with members of the U.S. Congress, Mexican and U.S. officials forecast dramatically rising Mexican wages, they tell potential investors the opposite. Last fall, for example, U.S. Commerce Secretary Mosbacher and Mexico Commerce Secretary Jaime Serra Puche conducted a series of day-long seminars to convince U.S. business executives to invest in Mexico. Distributed to the executives were materials which explained that "for every $10 per hour (fully burdened) job transferred to Mexico, the company will earn an additional $15,000 per year:

> . . .[B]ecause demand has hardly made a dent in supply, the direct [Mexican *maquila*] wage in 1994 should be only about $1.75 compared to $1.40 today. . . And the gap between the U.S. minimum wage and the Mexican direct wage will in fact increase during this period as labor shortages in the U.S. increase demand."[22]

The Lack of a U.S. Adjustment Ladder

Some proponents assert that the FTA will provide net benefits to U.S. workers by allowing them to move up a ladder of opportunity. The theory is that as Mexican workers increase their share of the less skilled and lower wage jobs in the new integrated economy, Americans will be "freed up" to take higher paying, higher skilled jobs. But this notion of an upward ladder is clearly contradicted by our experience. Americans who have lost their jobs because of imports typically have ended up with less skilled jobs at lower pay. Surveys of dislocated manufacturing workers find that only two-thirds find new jobs, and that more than half were jobless for at least six months. In the apparel sector, almost half did not find new jobs. And inasmuch as the U.S. economy as a whole has been shifting towards lower wage jobs, it is hard to see how "freed up" workers will shift to better jobs.[23]

The often-used analogy between the FTA and the entrance of Spain and Portugal into the European Community is also misleading. Mexico's population is much larger relative to that of the U.S., and the income gap is

much wider.[24] Western Europe has a strong social safety net for the unemployed and a world-class retraining and relocation system. Moreover, part of the deal that brought Spain and Portugal into the EC involved a dramatic increase in subsidies to these poorer areas in order to help them catch up to the rest of the EC.

In stark contrast to the European Community, the U.S. lacks effective systems of retraining, job search help, and economic redevelopment assistance for industries and communities hit with low-wage competition. Over the last decade, unemployment compensation and other safety nets for people unemployed through no fault of their own have been frayed further. Given tight public budgets at all levels of government for the foreseeable future, we can only expect things to get worse. The indifference of this Administration to the fate of affected workers is reflected in this year's Federal budget, in which the allocation for trade adjustment assistance is zero!

Environmental Standards

The *maquiladora* sector is a growing environmental tragedy, involving among other things, toxic wastes poured into open sewers, major air pollution, and lack of basic sanitary facilities for its population.

Mexican labor and environmental standards are so much lower than our own that liberalized trade has led, and will continue to lead to, a flood of firms leaving the U.S. solely to escape environmental regulation. Until recently, for example, Southern California was the second largest (after North Carolina) furniture manufacturing center in the U.S. with 63,000 employees. In 1988, however, smog pollution control authorities required Southern California plants to install spray chambers to prevent escape of hydrocarbon fumes from paint solvents. The result: since the new rule was announced, more than 40 furniture manufacturers have moved (or are in the process of moving) from Southern California to the border region of Mexico, where they are not required to install spray chambers and their smog production is relatively unimpeded.[25]

California's Salton Sea is already polluted by over 100 industrial chemicals discharged by Mexican factories into rivers which then flow to California.[26] The responsible factories are outside the reach of the U.S. Environmental Protection Agency.

Fruits and vegetables imported from Mexico have DDT and other pesticide residues which have been banned in the United States. Mexican agricultural workers are exposed to pesticide contamination from which the U.S. Occupational Safety and Health Administration would protect them if they worked in the United States. If a free trade agreement further liberalizes agricultural commerce, years of environmental reform could be effectively undone.

In response to concerns about some of these issues, the Administration and the Mexican Government contend that progress has been made, and they have suggested separate discussions on environmental issues. But without the leverage of a trade agreement, we must rely on the good intentions of the Mexican government. Unfortunately, the prospects are not reassuring. Mexico's environmental rules, on the books, are already similar to those in the United States. Indeed, one Mexican regulation requires any manufacturer located within 100 kilometers of the U.S. border to abide by U.S. EPA standards as well as any additional standards adopted by the contiguous U.S. state.[27] The problem is lack of enforcement on the part of SEDUE, Mexico's environmental agency. Of over 600 *maquiladora* plants in Tijuana, only seven have had their SEDUE applications approved; operation is not contingent on receiving approval.[28]

The Impact of a Free Trade Agreement on Immigration

Both the Bush and Salinas Administrations claim that free-trade-induced economic growth in Mexico will reduce the flow of undocumented immigrants to the United States. However, the evidence suggests that continued economic integration between the United States and Mexico is likely to *accelerate* undocumented immigration to the U.S., rather than slow it.

One reason is that immigration is stimulated by economic and social disruption, a concomitant of industrialization. Once displaced from peasant agriculture to urban areas in Mexico, migrants find it easier to take the second step of seeking work in the United States. Exacerbating this phenomenon is the fact that job growth which results from economic integration is likely to continue to be disproportionately located in Mexico's northern states, to take advantage of proximity to U.S. markets. From there, Mexican workers are much more likely to immigrate to the U.S. to obtain higher wages. At least part of the high rate of labor turnover (averaging as much as 10 percent per month) in the *maquiladora* plants is attributable to employees moving on to the United States.

Studies of characteristics of undocumented Mexican immigration to the United States confirm these speculations. Recent immigrants tend to have more work experience, be more educated, and are more likely to come from urban areas.[29] In short, increased immigration from Mexico is less the product of unemployment and lack of skills, and more the product of heightened aspirations which stem from the expansion of low-wage industrial employment in Mexico.

Effect of FTA on Investment Decisions of U.S. Firms

It is a mistake to see the problem of the adjustment of U.S. workers and businesses to a free trade agreement as a "one-time only" problem. An unregulated trade agreement along the lines of the Administration proposal would subject an increasing number of American workers to continuous pressure to lower their wages, benefits, and living standards in order to compete with low-wage Mexican labor using high-tech machinery and equipment. The effect will not be limited to those firms out-sourcing or threatening to out-source to Mexico. It will spill over to most companies employing workers with average skills, in the same way that U.S. trade deficits resulted in a lowering of wages for all noncollege-educated workers in the 1980s.

Thus, *the greatest danger to the U.S. economy of an Administration-style FTA is that it will encourage American firms to find a low-wage solution to the problem of global competitiveness.* As the recent report of the high-level task force on the U.S. economy chaired by former Secretaries of Labor Bill Brock and Ray Marshall concluded, we are facing an historic strategic choice in how we respond to the global marketplace.[30] One strategy -- the "high-skills, high-wage" path -- competes by producing innovative high-quality goods efficiently so that they can be sold at high enough margins in the global marketplace to pay high wages and maintain U.S. living standards. This path requires the maintenance of correspondingly high levels of private and public investment to continually upgrade the quality of our capital and labor.

The alternative "low-wage" path means competing on the basis of cutting labor costs. This is the strategy of the Administration's proposal. With a large labor pool of Mexican workers willing to work for a small fraction of U.S. wages in an environment free of meaningful regulation over working conditions, health and safety, and pollution, why would rational managers invest in labor-saving equipment? Why would they opt for the riskier path of improving the quality of the product when cutting labor costs with cheap wages is an easier path? As major expansion or relocation decisions come up, why would not more and more firms choose to produce in Mexico rather than in Texas or Louisiana or New Jersey?

What Makes Sense?

The fatal weaknesses in the Administration's case do not mean that we should abandon the goal of North American economic integration. As the leading economic power in the Western Hemisphere we have a responsibility to assist our neighbors in their efforts to raise their living standards. It is also in our own interest to do so, especially if the rest of the developed world forms into large economic "blocs" in Europe and Asia. If Mexican development was not linked to a low wage strategy, Mexican purchasing power could rise with increased productivity and industrialization; this kind of regional strategy

would create the economies of scale which proponents mistakenly seek in a low wage FTA.

What is needed, however, is not a "quick-fix" trade agreement, but a genuine development strategy aimed at raising living standards on both sides of the Rio Grande. As part of a broader strategy, a free trade agreement would make sense.

Debt Relief

The fundamental cause of Mexico's stagnation is its debt burden caused by its own failure to invest effectively the proceeds of international loans; by loan-pushing of international bankers in the 1970s; and by the high interest rate regime produced by U.S. monetary policies. Underlying the FTA proposal is the question of who -- besides the Mexican worker whose living standards have been slashed during the debt crisis -- will pay Mexico's debt? In effect, the Bush Administration is proposing that American workers also be required to pay Mexico's debts by lowering their incomes and losing jobs.

Debt relief, on the other hand, would allow the Mexican economy to expand without undercutting the wages of its own and U.S. workers. Real Mexican wage levels could then rise to the pre-debt crisis level. New funds would be available for Mexico's domestic investment, making Mexico less totally reliant on runaway shops from the United States. And debt relief would expand Mexico's appetite for U.S. imports, helping to create the transnational prosperity of which free trade hopes to take advantage. The Brady Plan for debt relief is inadequate since Mexico's creditors have not been willing to forgive enough debt to free Mexico to borrow for growth. Substantially more concessions should be made by the international lenders who facilitated the borrowing binge.

This will, of course, require some sacrifice on the part of bank shareholders. But much of the debt is already listed as non-performing, and major banks have written off a substantial part of it. In any case, if the Bush Administration can organize international creditors to forgive 50 percent of

Poland's external debt, it ought to be able to do something similar for a nation so much closer to our vital interests.

Harmonization of Labor and Environmental Standards

The United States maintains a federal minimum wage, in part to prevent employers from engaging in competitive impoverishment strategies. We do not consider it a legitimate free market activity for the state of Mississippi to promise wage rates of less than $4.25 per hour in order to lure a Toledo manufacturer to relocate. Why should we create conditions under which the state of Chihuahua can induce U.S. manufacturers to relocate to take advantage of $1 hourly wage rates?

Similar questions apply to environmental regulation. No state can recruit employment by promising exemption from EPA standards. Yet our current and proposed economic arrangements with Mexico permit states south of the border to engage in just such recruitment.

The gradual "harmonization" of labor and environmental regulation -- bringing Mexican standards and enforcement up to the U.S. level -- should be a principal element in a U.S.- Mexico trade pact. At the very least, the U.S. should require certification that products exported to the U.S. market were manufactured with labor, health and safety, and environmental standards equivalent to those applicable in the United States. If Mexico chose to exempt its own domestic production from such requirements, it could do so.

Mexican authorities insist that, in a period when Mexico's public sector is being rapidly reduced, they do not have the public funds available to expand enforcement of environmental laws. This is the kind of practical problem with which a negotiated political package, off the fast track, could deal. One solution is for the U.S. to participate in the financing of Mexico's environmental enforcement agencies' expansion. Inasmuch as the Bush Administration's "Brady Plan" and its associated adjustment programs require Mexico to reduce its public sector, it is appropriate for the President to ask the

Congress to shoulder some of the expense of addressing the resultant environmental costs.

Certainly wage harmonization would have to be gradual and would take some account of lower levels of overall development. In these discussions, Mexico has a right to be assured that its adoption of higher labor standards will not result in a shift of investment away from Mexico towards even lower wage nations in the Caribbean, Latin America, and the Pacific. The assurance can only be accomplished by an Administration decision to enforce provisions of current U.S. trade law which already require imports to this nation to be manufactured in accordance with internationally recognized labor standards.

<u>A Program of Adjustment Assistance for U.S. Workers</u>

A serious adjustment assistance program for U.S. workers, industries, and communities affected is essential on the grounds of both fairness and efficiency. Only if there is a shift of U.S. labor up the value-added ladder does any trade agreement make sense.

The present trade adjustment assistance programs are inadequately managed, seriously flawed, and made ineffective by an Administration that is hostile to the basic concept. To create new opportunities for those dislocated on this side of the border means a serious rethinking of adult training and retraining programs. This is long overdue in any case. Compared with our major competitors, U.S. vocational training is primitive. Aid to affected industries to upgrade their technology and redirect production to higher value products should also be part of the package, as should redevelopment assistance to localities that are particularly vulnerable.[31]

<u>Political Liberalization in Mexico</u>

Political liberalization in Mexico will have direct bearing on how an FTA affects U.S. living standards. Protections against environmental exploitation and labor abuse in America are not achieved simply by the laws enacted by government, but by the strength of independent institutions, such as

environmental organizations, civil rights groups, and labor unions. Their ability to monitor, to expose, to sue in court and to defeat candidates who are indifferent to their concerns is the rock upon which such protections are founded.

Mexico's one-party system, with its interconnections between business, labor, and political institutions, does not yet provide the culture to nurture the necessary independent advocacy, membership, and pressure groups. The judiciary, which is key to the implementation of protection of people and the environment, is still dependent on the government and the ruling party.

It is foolhardy for us to rush to integrate our economy with that of a nation with such different institutions. The more sensible path is the one the European Community took with the integration of nations who emerged from years of undemocratic government, such as Greece, Portugal, and Spain. In those cases, the EC carried on lengthy negotiations and insisted on demonstrations of solid progress in developing democratic institutions, before these nations were admitted. The U.S.- Mexico FTA is not a political merger, and therefore the U.S. will have little influence over internal Mexican political structures once an FTA is in place. This makes it all the more important to move cautiously.

No Fast Track

The Administration is indifferent to the many risks involved in the FTA. Moreover, the history of trade negotiations over the last decade have seen the Reagan and Bush Administrations consistently ignore U.S. economic interests in favor of ideological and political considerations. Given this record, promises by the Administration that Congress' concerns will be seriously considered in the negotiations are not worth very much. If Congress allows itself to be stampeded along a fast-track, it will lose whatever leverage it has. It will be a signal to all concerned -- the Administration, the private interests involved, and the governments of Mexico and Canada -- that the Administration has the power to override Congress' concerns.

Proponents claim that the absence of fast-track will doom any proposal. They assert that narrow "special interests" will block passage. The idea that only those opposed to the bill have special interest is, of course, absurd. There are special interests on both sides as there are in practically every piece of economic legislation that goes before the Congress. Tax spending and other important bills are not on fast tracks, and the FTA should not be on one either. Sorting out special interests and the national interest is the work of representative democracy.

Fast Track was created to deal with the problem of having to renegotiate a treaty with a huge number of nations -- 100 -- involved in GATT. But with just two countries who are neighbors, the problems of possible amendment to a proposed FTA are certainly not insurmountable.

The so-called "threat" that Mexico would not enter into negotiations if they were not on a fast-track is hardly credible, given the apparent political benefits that this treaty gives the Salinas Administration.

Finally, it is important to remember that *there is no economic urgency*. The U.S. economy has a number of problems, but there is nothing broken here that will be fixed by a Free Trade Agreement with Mexico. On the other hand, the consequences of recent radical policymaking based upon dubious economic theories -- the fiscal deficit and the Savings and Loan disasters are two examples -- suggests the dangers in store if we put such a risky proposition on a fast-track.

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ENDNOTES

1. These conditions are spelled out in international trade theory textbooks, such as Paul R. Krugman and Maurice Obstfeld, *International Economics*: Theory and Policy, Glenview, IL: Scott, Foresman, and Company; 1988; and Jagdish N. Bhagwati and T.N. Srinivasan, *Lectures on International Trade*, Cambridge, MA: MIT Press, 1983.

2. "The Likely Impact on the United States for a Free Trade Agreement with Mexico." U.S. International Trade Commission (USITC). Washington, DC February 1991.
Since the issuance and subsequent criticism of this report, the Administration has attempted to disown its analysis and is making a desperate and transparent effort to come up with "new" estimates.

3. Rudiger Dornbusch, "US-Mexico Free Trade." Testimony before the Finance Committee of the United States Senate, February 20, 1991, page 7.

4. United States International Trade Commission, *Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States-Mexican Relations; Phase 1; Recent Trade and Investment Reforms Undertaken by Mexico and Implications for the United States*, USITC Publication 2275, April 1990, Table 4-4, p. 4-5.

5. Calculation by William Spriggs of the Economic Policy Institute assuming 2.5 percent annual real growth in U.S. GNP for next 20 years. See USITC p. 2-2, footnote 20.

6. The ITC has consistently refused to show the factual and statistical evidence for its assertions. This estimate is based on telephone conversations between William Spriggs, Economic Policy Institute; and Kyle Johnson, ITC, February 14 and 19, 1991. The ITC model, based on the 1980 Census, classified 26 million Americans as skilled and 70 million as unskilled. Neither the ITC nor the U.S. Trade Representative has contradicted the EPI 73 percent figure. On March 8, John Suomela, the U.S. ITC director of the Office of Economics, sent a memorandum to the Commission indicating that he now thinks that it is likely that no workers will lose income because of the FTA. No new numbers, however, were made public. Indeed, the unwillingness of the ITC to reveal the statistical basis for its conclusions to the Congress or the public shows the dangers of putting the treaty on a track too fast to verify confusing claims and counterclaims.

7. U.S. Department of Labor, Bureau of Labor Statistics, Office of Productivity and Technology, "Hourly Compensation Costs for Production Workers in Manufacturing Industries - Mexico, 1975-1988." April 1990

8. U.S. Department of Labor Bureau of Labor Statistics. "International Comparisons of Hourly Compensation Costs for Production Workers in Manufacturing, 1975-89," October 1990, Report 794.

9. ITC Publication 2275, April 1990, p. 5-14.

10. ITC Publication 2275, April 1990, p. 6-2 to 6-5.

11. ITC Report, February 1991, p. viii.

12. Richard N. Sinkin. "Manufacturing in Mexico: Prospects for the 1990s." In Interamerican Holdings Co., et. al., *A Partnership for Growth: Investing & Manufacturing in Mexico*, briefing book distributed by U.S. Department of Commerce for briefing session for U.S. business executives in Los Angeles, CA, October 26, 1990, p. 3.

13. Report 794. U.S. Department of Labor, Bureau of labor Statistics, October 1990. "Supplementary Tables for BLS Report 771," U.S. Department of Labor, Bureau of Labor Statistics, Office of Productivity and Technology, August 1989. International Monetary Fund, *International Financial Statistics, Yearbook 1990*, Washington, DC: IMF, 1990.
For the purpose of this discussion, the above are conservative estimates. As shown in testimony before Congress, wages in the export-oriented *maquiladora* plants are considerably lower than they are in the rest of Mexico.

14. Statement of Ambassador Julius L. Katz, Deputy United States Trade Representative, Hearing on American Economic Policies Toward Mexico and Latin America, Monday, September 17, 1990, United States Congress, Joint Economic Committee, p. 36.

15. "Prepared Testimony of Nora Lustig on the Agreement Signed by Mexico and Its Commercial Banks before the Subcommittee on International Development, Finance, Trade and Monetary Policy of the House Committee on Banking, Finance, and Urban Affairs," February 7, 1990, p. 4.

16. Mexican-manufactured export figures based on data prepared by the Commerce Department for the United Nations Economic Commission for Latin America and the Caribbean (UN-ECLAC). Unpublished data.

17. Rudiger Dornbusch, "US-Mexico Free Trade." Testimony before the Finance Committee of the United States Senate, February 20, 1991, page 3.

18. Walter R. Mead. *The Low-Wage Challenge to Global Growth: The Labor Cost Productivity Imbalance in Newly Industrialized Countries*. Washington, DC: Economic Policy Institute, 1990, pp. 17-18.

19. From "Commentary," by Rudiger W. Dornbusch, in Albert E. Burger, ed., *U.S. Trade Deficit: Causes, Consequences, and Cures*. Proceedings of the Twelfth Annual Economic Policy Conference of the Federal Reserve Bank of St. Louis. Boston, Kluwer Academic Publishers, 1989, p. 111.

20. Commerce Department, International Trade Administration. "Mexico Fact Sheet." Fax transmittal January 3, 1991.

21. Early this year, President Salinas met with the presidents of Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica and agreed to establish a regional free trade zone. Venezuela and Colombia sent observers to the meeting and can be expected to join this new trade zone as well.

22. Richard N. Sinkin, "Manufacturing in Mexico" in *A Partnership for Growth: Investing & Manufacturing in Mexico*, p. 2.

23. Richard Rothstein. *Keeping Jobs in Fashion: Alternatives to the Euthanasia for the U.S. Apparel Industry*. Washington, DC: Economic Policy Institute, 1989, p. 18.

24. Department of Labor, Report 794. International Monetary Fund, *Financial Statistics Yearbook, 1991*. International Monetary Fund, *Direction of Trade Statistics Yearbook, 1990*.

25. Chris Kraul. "A Warmer Climate for Furniture Makers," *Los Angeles Times*, May 14, 1990.

26. Jane Kay. "The Toxic Dump that Flows into California," *The San Francisco Examiner*, June 22, 1986.

27. "A New Hope for the Hemisphere?", interview with Carlos Salinas de Gortari, *New Perspectives Quarterly*, Winter 1991, p. 6.

28. Richard N. Sinkin, "Manufacturing in Mexico" in *A Partnership for Growth: Investing & Manufacturing in Mexico*, p. 4.

29. Alejandro Portes and Ruben Rumbaut. *Immigrant America, A Portrait*. Berkeley, CA, University of California Press, 1990, page 11. Portes and Rumbaut give as their sources for these data: Bean, Browning, and Frisbie, "What the 1980 Census Tells Us About the Characteristics of Illegal and Legal Mexican Immigrants," Population Research Center, University of Texas at Austin, mimeographed, 1985; North and Houstoun, "The Characteristics and Role of Illegal Aliens in the U.S. Labor Market," Washington, DC: Linton, 1976, mimeographed; Massey, "Do Undocumented Immigrants Earn Lower Wages Than Legal Immigrants? New Evidence from Mexico," International Migration Review 21 (Summer 1987) p. 236-274; and Portes, "Illegal Immigration and the

International System: Lessons from Recent Legal Mexican Immigrants to the United States," Social Problems 26 (April 1979), p. 425-438.

30. Brock and Marshall Report, *America's Choice: High Skills or Low Wages.* The Report of the Commission on the Skills of the American Workforce, June 1990. New York: National Center on Education and the Economy, 1990.

31. David Osborne, *Economic Competitiveness: The States Take the Lead.* Washington, DC: Economic Policy Institute, 1987.

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THE POLITICAL ECONOMY OF FREE TRADE WITH MEXICO

Testimony by Christopher Whalen
Committee on Small Business
U.S. House of Representatives

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April 24, 1991

SUMMARY

- Politics: Despite government hype about economic success, Mexico remains dependent on the United States. A multi-billion dollar flow of multilateral loans, export subsidies and other credits directed from Washington literally keeps Mexico afloat on a sea of debt. The Bush Administration's emphasis on a Free Trade Agreement is intended to preserve the political status quo in Mexico by deliberately obscuring enduring structural problems that hinder Mexico's recovery from a decade of economic and political crisis.

- Reform: Mexico is not ready for free trade. Its so-called privatization program is largely a public relations exercise meant to attract new foreign capital while leaving economic control in the hands of the country's corrupt ruling party, known by its Spanish initials of PRI, union leaders and allied business interests. Most of the inefficient state-sector companies that were in government hands in 1988 are still under state control, while subsidies to Mexico's state sector totaled almost $4 billion in 1990.

- Deficits: An overvalued peso is pushing Mexico's trade deficit toward $6 billion in 1991. Overall, the country's current account deficit (excluding $8 billion in oil export revenues) may reach $20 billion in 1991 as the inflation differential between Mexico and its major trading partners renders domestic export industries uncompetitive.

- Oil: Mexico will not be a source of oil for the U.S., and in fact will be a net importer of energy by the end of the decade. "Net" oil exports are rapidly shrinking as domestic demand for gasoline and fuel oil grows at double-digit rates. As hard currency generated by energy exports declines, Mexico faces a substantial financial challenge to restructure its oil-dependent economy.

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Mr. Chairman, thank you for inviting me to testify today. My name is Christopher Whalen. I am Senior Vice President of The Whalen Company, a Washington firm which specializes in analyzing the economic and financial impact of political trends. Through the company's 20-year-old information services division, known as WIRES, The Whalen Company provides a unique news service and strategic business counsel to companies and governments in the U.S., Canada, Europe and the Far East.

One of our special areas of interest is Mexico, both because of the specific trade and investment concerns of our clients, and also because of its obvious significance to the future prosperity of our own country. As we wrote in our 1990 book Trade Warriors: "An FTA is frequently discussed as a possibility between Mexico and the United States, in part because of official anxiety in Washington with respect to Mexico's deteriorating economic condition, but also out of recognition for the vast degree of social and commercial integration which already exists between the two countries."

My own study of Mexican affairs spans more than fifteen years, and includes both my work as an analyst for the Federal Reserve Bank of New York and numerous trips south of the border, including a two-week visit this past January. I have written a number of newspaper articles and longer works dealing with Mexico's economic and political institutions, and several of these, as well as items by other authors, are included as an Appendix to my prepared remarks. I ask that they be included in the permanent record of these hearings.[1]

While I support an FTA in theory, we must remember that Mexico is financially dependent on the United States and is therefore not able to negotiate from a position of independence. Billions of dollars in annual subsidies are provided to Mexico at the direction of the U.S. government, both *directly* through agencies such as the Export-Import Bank, the Commodity Credit Corp. of USDA, and the Federal Reserve System; as well as *indirectly*, through sources such as the World Bank, the International Monetary Fund, other multilateral agencies, and foreign governments such as Japan.[2]

As the Committee examines the Mexican economy, special emphasis should be placed on three vital questions: (1) the pace and true scope of the widely misunderstood Mexican reform efforts, in particular the so-called "privatization" process, (2) the related question of the country's deteriorating balance of payments situation, and (3) the alarming decay of Mexico's oil production capacity. I would argue that a direct connection exists between Mexico's still tenuous financial and political situation, the mistaken perception that it will be a major supplier of oil to the U.S. in the future, and the frantic effort by the Bush Administration to hastily ram a Free Trade Agreement through Congress before the end of this year. But there is also a political dimension to the current campaign for an FTA.

As John Dewey said: "Non-resistance to evil which takes the form of paying no attention to it is a way of promoting it." The current Bush Administration policy with respect to Mexico is to concentrate on free trade to the virtual exclusion of other questions -- such as official involvement

in the drug trade, acts of repression against journalists and political opponents, or the country's continuing financial problems. Because Washington prefers the known quantity of PRI rule, albeit without the benefit of free elections, to the uncertainties of a left-wing regime under nationalist leader Cuauhtemoc Cardenas, who is widely believed to have won the 1988 election in Mexico by better than 2:1, the Bush Administration chooses to ignore Mexico's internal problems and indulges itself in the fantasy that both the increasingly isolated PRI and the regime of Carlos Salinas de Gortari have broad popular support.

Cardenas, whose father, President Lazaro Cardenas, kicked foreign oil interests out of Mexico in 1938, recently told an audience of bankers in New York that foreign investors are currently "sharing in the corruption with the government" while companies from Canada and the U.S. use Mexico as a "chemical waste dump." Cardenas also restated his position that Mexico cannot continue to service its foreign debt and also prosper economically and vowed that privatization deals done to date would be "revised" by a future Cardenas administration. [3]

The Salinas regime offers foreign investors a bigger role in financing Mexico's centralized economy, but without reducing the PRI's monopoly control over economic or political institutions in Mexico. The real goal of the Salinas regime is to attract foreign capital while continuing to deny Mexicans the most basic democratic freedoms, and thereby form an unholy partnership between Mexico's corrupt corporatist state and multinational companies eager to access the country's cheap labor.

Mexican Reform

Much of the "stability" apparent in Mexico since 1988 is an illusion, the result of government-imposed regulations that mask continued double-digit inflation, a foreign debt burden that is again growing despite the so-called "debt reduction" program launched by the Bush Administration, and widening trade deficits -- the same lethal combination that created Mexico's economic problems in the late 1970s. For this reason, I would question whether Mexico is prepared for free trade with the U.S.

A confusing regime of domestic wage and price controls and an officially managed currency regime has both encouraged and been made possible by a surge in foreign capital flows: loans from the World bank and IMF, export subsidies and guarantees, private borrowings, and private investment capital -- in that order of significance. Mexico remains dependent on offshore capital to pay its import bills and seems ever further away from the goal of independence from foreign banks and offshore capital than in 1988.

From June 1989 through June of last year, the World Bank approved $4.1 billion in new "project loans" to Mexico, credits that are officially justified as being part of modernization or privatization projects, but in fact are used for "structural adjustment," that is, basic solvency support. From June 1990 through March of this year, the World Bank committed to make a further $1.1 billion in new loans to Mexico for purposes such as "supporting exports,"

"decentralization" and "regional development," but the fact of the matter is that all of these monies have simply gone directly into the Mexican Treasury. [4]

Most observers might be surprised to discover, for example, that all of the debt reduction brought about through the Brady Plan has been more than offset by new sovereign and state sector borrowings by Mexico since 1988, increasing Mexico's future debt burden. While the World Bank is supposed to be out of the solvency loan business, today it is the single largest source of hard currency for Mexico. Indeed, a careful analysis of World Bank loans to several heavily indebted countries such as Mexico reveals that it is effectively "roundtripping" sufficient new money each year to cover interest payments on older loans.

Another important part of the U.S. support mechanism for Mexico is unsecured, interest free loans from the Treasury and Federal Reserve System. In addition, the Commodity Credit Corp. of the USDA has provided billions of dollars worth of subsidized grain and other foodstuffs to Mexico since 1988, while the EXIM bank has also increased its credit allocation for Mexico. A recent report by the Inspector General of the USDA catalogued several instances of fraud and pricing irregularities in the CCC's "General Sales Manager Program" with respect to Mexico. Similar problems with fraud also have been found by EXIM Bank auditors. [5]

Thus in addition to being forced to compete with a country with sub-standard wages and working conditions, U.S. workers must also subsidize Mexico's economy through government export credits, loan guarantees, and American

<u>contributions to support new World Bank lending -- loans that in all likelihood will never be repaid, forcing member countries such as the United States to provide new funding for the Bank</u>.

After multilateral loans and official subsidies, the next largest source of new capital to finance the "Mexican miracle" is new private sector borrowings, both by the government itself and by "private" and public-sector companies. In the international stock and bond markets, government surrogates such as the nationalized banks and PEMEX, the oil monopoly, have issued a torrent of new debt, both in European markets and the United States. PEMEX alone has incurred almost $2 billion in new debt since 1988, ostensibly to finance new oil exploration and production. Funds are also raised through the issuance of dollar-denominated certificates of deposit by state-owned Mexican banks.

Indeed, Angel Gurria, Mexico's undersecretary for finance, bragged recently that Mexico's state sector was authorized to borrow upwards of $2.7 billion from abroad in 1991, but neglected to mention where his country will earn the money to repay this new debt, not to mention the $100 billion plus in existing debt. While Mexico's new-found ability to borrow privately may seem a sign of success, given the country's credit history and its continuing tendency to consume loan proceeds rather than invest them in productive assets, a certain degree of caution is prudent. When government officials, for example, indicate that the proceeds of "privatizations" have been allocated to "help

Mexico's poor," a euphemism for buying votes, this is a direct admission that any new capital inflows or savings from privatizations are being dissipated. [6]

New loans and investment require future real growth, above inflation, and exports in excess of imports to assure repayment. Yet private Mexican analysts, such as economist Rogelio Ramierez de la O, project a current account deficit of $20 billion in 1991 (excluding $8 billion in oil exports), raising substantial questions as to whether the economic policies of the Mexican government are sustainable.

The much-heralded privatization program is a case in point. Many members of Congress have doubtless read and heard glowing reports of "courageous" reform and change in Mexico, reports that in large part originate with the Salinas government itself. Otherwise respectable U.S. economic commentators parrot meaningless statistics referring to the fact that "hundreds" of state-owned companies have been "privatized," but ignore the fact that the companies sold to date represent only a tiny part of Mexico's Soviet-style industrial complex.

To its credit, the Salinas government has sold two airlines, recently sold shares in TELMEX, the telephone monopoly, and also intends to sell non-voting shares in the nationalized bank, but statements from Salinas about the retention of a "guiding role" for the state does not bode well for moving forward with true privatization of the vast bulk of the Mexican economy. Roberto Salinas, Academic Director of the Center for Free Enterprise Research (CISLE) in Mexico City, wrote recently: "The 778 companies divested so far represent less than 15 percent of the government's

assets, even excluding TELMEX, the steel mills and the banks. Meanwhile, the largest and least efficient state companies remain untouched."

The Mexican economist and radio commentator notes that privatization has generated $1.5 billion in proceeds and cost savings since 1988. Yet these benefits are negligible compared to the $700 million in subsidies needed to finance the state sector in the first quarter of 1990 alone. Subsidies reached $1.6 billion in the first six months of last year; even selling all the banks and the remaining shares in TELMEX tomorrow would not make up for these massive losses.

While the government in fact has sold off literally hundreds of state-owned concerns, the fact remains that the "core" of Mexico's inefficient monopolies, or *parastatales*, remains largely intact. Significant companies sold to date have generally been profitable concerns. And most of the winning groups in these deals have been led by Mexican insiders with deep connections to the PRI, suggesting that any "change" in ownership is merely superficial.

Inflation and the Peso

Compounding the cost of subsidies to loss-ridden state sector industries is the reduced competitiveness of Mexican exports resulting from the overvalued peso. Even with higher oil revenues last year, Mexican exporters have not kept pace with the huge surge of imports created after the government "liberalized" restrictions on imports. Clothing from Korea, television sets and other consumer goods from

Japan, and food and other consumer goods from the United States, are all attracted to Mexico's large, newly open market and the deceptive availability of hard currency.

Even with Mexico's widely noted "cheap labor," the huge inflation differential between the U.S. and Mexico is a rapidly growing problem for many export-oriented Mexican companies. For example, while the cost of electricity, natural gas and other inputs from state-run monopolies has been rising at double-digit rates since 1988, domestic prices have been frozen, while the peso has been devalued at a mere three to four percent rate annually, meaning that private producers cannot pass along increased production costs.[7] President Salinas declares that: "We want to export products, not people." Yet in the present environment, maintaining, let alone expanding, export markets for Mexican industries is gradually becoming impossible.

A stable peso is seen as the single greatest success of the Salinas government, both as a political gesture to inflation wary citizens and to allay the fears of foreign banks and offshore investors. To its credit, it has convinced some investors, domestic and foreign, to bring money back into the country, but Mexican export industries, as well as workers and consumers, pay a very high price for this temporary and largely political victory.

In addition to the impact on export industries, consumers and workers bear a heavy burden under the Salinas stability package. Prices for sugar, tortillas and rice have risen three- to four-fold since December 1987, while wages have been adjusted upwards just over 100 percent.[8]

As a result, the purchasing power of Mexican workers has continued to erode, even beyond the 50 percent loss suffered during the 1982-88 period, and with this further decline in living standards the popularity of the Salinas regime has also fallen. This disturbing trend makes moving to the United States an even more attractive prospect for Mexican workers, yet ironically, Salinas is hailed in Washington as a great reformer.

Through considerable effort, the Salinas government did manage in 1990 to restrain inflation to an official rate of 30 percent, the lowest level in years, by limiting the country's money supply growth to "only" 40 percent (private estimates put the "free" inflation rate closer to 50 mpercent for 1990). But there are troubling signs that easy money and inflation are again being used to cover the cost of Mexico's inefficient state sector, and more importantly, as a political device to stimulate the economy as important mid-term elections approach. <u>CISLE's most recent estimates show Mexico's money supply growing as fast as 60-70 percent in 1991, implying that official projections of 15 percent inflation may be overly optimistic and that internal inflation may be headed higher again this year</u>.

Privately, a number of Mexican businessmen and journalists I interviewed in January worry that the surge of internal monetary growth, which since October has been used to force domestic interest rates lower, will eventually result in demand-led inflation, increased pressure on import-sensitive foreign exchange reserves, and an eventual devaluation of the peso to something approaching 20-30 percent versus the dollar. If and when such an adjustment

is forced upon Mexico, a great part of the investor confidence and domestic "stability" built-up over the past three years will be lost.

The already rising pressure on Mexico's foreign currency reserves was illustrated recently when the Salinas government announced a reduction, from $300 to $50 dollars equivalent in pesos, in the value of goods that Mexicans are allowed to bring back with them into the United States, a regressive move that should breathe new life into the lucrative cross-border smuggling trade that the Salinas trade liberalization effectively put out of business.

Yet larger financial imbalances than a day's worth of cross-border shopping threaten the country's stability. Food imports, for example, were $4.1 billion in 1989 and more than $5 billion last year. Yet the single largest factor influencing any analysis of the country's future prospects involves future Mexican capacity to produce and refine adequate amounts of oil.

The Oil Question

One of the main attractions driving both investor interest in Mexico and the current urgency of the Bush Administration with respect to an FTA is the notion that Mexico will be able to sell oil on world markets and to the United States in the future. As we have seen in the Persian Gulf and during the heated debate over allowing expanded oil drilling in Alaska, President Bush places enormous emphasis on future U.S. access to oil, in particular in this hemisphere. But I would suggest to you, Mr. Chairman, that

the notion of Mexico serving as a major source of energy for the U.S. represents perhaps the major fallacy in the current free trade debate.

Casual students of Mexico might be shocked to learn that our oil-rich neighbor is facing a serious energy shortage by the end of the 1990s, and might actually become a significant *net energy importer* by no later than the first years of the next century.[9] True, Mexico does claim to sit atop some 50 billion barrels in "proven" reserves, but developing energy requires massive amounts of capital, something that the Mexicans still find in very short supply despite the enormous flow of funds from multilateral agencies, new private debt and investment, and other sources.

In the decade since the 1982 "debt crisis" began, capital investment by Mexico's state-owned oil monopoly, known as PEMEX, has declined dramatically, accelerating a wasting process already well advanced because of corruption and government diversion of oil revenues to support non-oil industrial development. Roads, port facilities, rail lines, pipelines, drilling equipment and other capital assets have lacked maintenance and replacement for more than a decade, while oil fields likewise have been neglected and mismanaged. As a result, PEMEX has been gradually decapitalized, leaving the country's overall ability to produce and refine petroleum dangerously short as the country enters the 1990s.

Official Mexican production is 2.5 million barrels per day (bpd), but internal PEMEX documents as well as outside petroleum firms familiar with the situation confirm that the country's total production will slip to 1.5 million bpd by

the year 2000. This will occur even if "massive" new investments are made in exploration and new capital spending, according to a PEMEX report released early last year.

At the same time, domestic consumption of refined products and natural gas is rising fast -- roughly seven percent annually for all energy and upwards of 12 percent per year for gasoline. If you remember that roughly half of Mexico's 85 million citizens are below 18 years of age, the potential for even higher future demand is apparent.

President Salinas recently closed the antiquated Azcapotzalco refinery, in part because the dangerous facility was a source of pollution in the Valley of Mexico, in part as a high-visibility public relations gesture to cool concerns in Washington over serious pollution problems along the border. By doing this, Mexico lost 105,000 bpd of refining capacity, forcing the country to increase output at other facilities and boost its already substantial imports of refined products from the United States and other countries.

The government-controlled news organ, NOTIMEX, reported on March 20th that importing the equivalent of 20,000 bpd of gasoline and 10,000 bpd of fuel oil would be required to offset lost production capacity. These substantial but relatively small amounts of refined product imports, if they represented Mexico's total external purchases, would be of little concern. But in fact the country already imported more than three times this amount of gasoline and fuel oil in 1990, at a cost in excess of $1 billion.

Refinery capacity is one of several areas where Mexico's oil industry desperately needs help, and where the Salinas regime has asked the Bush Administration for both expertise and financing. But despite these positive steps, both the growth in domestic demand for refined products and the country's need to conserve scarce hard currency means that some very practical difficulties await foreign companies considering participation in any exploration or production projects in Mexico.

Outlook for the 1990s

On the day that the American bombardment of Iraq began, world oil prices plunged, and so too did the optimistic expectations of the Mexican government with respect to future oil revenues. Higher oil prices during 1990 did rebuild Mexican foreign currency reserves to near $10 billion as of December and as high as $13 billion as of January, according to official sources. Mexico's leading independent newspaper, El Norte in Monterrey, reported recently that gross petroleum export revenues reached $8.8 billion last year, in nominal terms the highest level since the peak of $15.6 billion in 1982.

Yet 13 billion dollars in reserves covers less than three months worth of imports compared with the 12 months of cover $14.6 billion provided in August of 1987, the peak in nominal reserves for Mexico. For this reason, the most important obstacle facing foreign investors in Mexico is the fact that the country's enormous demand for consumer items

such as food and gasoline, will place pressure on the availability of funds for new capital spending needed to modernize Mexican industries, including oil.

Despite the serious medium-term implications of overvaluation of the peso and declining oil exports, the Mexican government has with some considerable success painted a rosy image of the future to attract foreign investment. But while large dollar reserve figures may seem impressive, they tell only part of the story because the peso is being kept artificially strong versus the dollar in order to attract new investment and Mexican flight capital held in foreign banks.

Basic necessities such as imported grain, meat and dairy products may in coming years largely use up funds available for capital goods such as machinery and computers, or force the use of even more debt to finance capital projects as seems to be the case today. Without a substantial net surplus from energy exports, which seems unlikely given what we know today about energy supply and demand trends, or a consistent non-oil trade surplus, which is also inconsistent with the current Salinas policy of attracting foreign capital, it is not easy to identify how sufficient capital will be provided to help rebuild Mexico's oil industry.

For example, gross oil revenues from crude sales are expected to reach $8 billion in 1991, but when imports of gasoline and fuel oil are subtracted, Mexico's net hard currency earnings from oil fall to less than $7 billion. Three-quarters of this amount, in turn, is remitted to the Mexican Treasury to support subsidies to government-owned

companies and other spending. After operating costs are covered for PEMEX's far-flung operations and 170,000 employees, including a still considerable amount of patronage and corruption, very little is left for PEMEX to invest in new exploration and development.

As trends showing rising domestic demand and falling oil production converge, Mexico's "net" oil exports -- and the hard currency generated through overseas sales -- will inevitably shrink and disappear -- by some estimates as early as 1997. With the prospect of funding oil development with non-oil revenues or more debt facing the Mexicans before the end of the decade, the need for accelerating new investment in all aspects of the oil industry in Mexico becomes apparent, even to keep pace with domestic Mexican consumption.

One existing source of financing for Mexican imports of new oil equipment and technical services is the Export-Import Bank of the U.S. Purchases of machinery, oil-related equipment and technical assistance from American firms has been made possible through the issuance of EXIM loan guarantees and other methods.

Several months ago, the Bush Administration announced that it would make available upwards of $6 billion in new EXIM guarantees for commercial bank loans targeted for purchases of U.S. oil equipment and expertise. Indeed, last week EXIM quietly announced three preliminary medium-term loan guarantees for PEMEX totalling over $1 billion, but refused to comment on the matter.

It is important to recognize that these guarantees do not represent "additional" capital for PEMEX, but simply offset the billions of dollars in PEMEX revenues that are squandered each year to support Mexico's inefficient state-sector and subsidized imports. In a perverse distortion of the purpose for such loan guarantees, the EXIM Bank provides a back-door subsidy to the Salinas government under the thinly disguised pretense of supporting new energy production, reducing the pressure on the Mexicans to rationalize those parts of the economy that are still dependent on subsidies based upon oil export revenues.

One obvious solution would be for foreign companies to produce oil in Mexico exclusively for export, sharing the revenues between the government and the foreign company. But Mexico's need for energy, as well as still high political sensitivity to foreign control over Mexican energy assets, for now seems to preclude such ventures, at least in the open. This is why some Mexican sources speculate, with considerable accuracy, that the Salinas government is holding secret talks with foreign petroleum firms, while publicly denying that "oil is on the table."

In the next few months, as the hard currency windfall of the Persian Gulf war dissipates, Mexico faces a gradual cash-squeeze to finance a trade deficit estimated by some private economists to be as big as $6 billion in 1991. Loans from the World Bank, export subsidies from the U.S. and other nations such as Japan, private investment from the U.S. and other foreign countries, and other sources of credit probably will enable the Salinas government to muddle its way through 1992. But by the time the next presidential

election approaches in 1994, Mexico's falling oil revenues will become increasingly apparent, making it all the more difficult to maintain the fickle confidence of foreign banks and investors, much less among the millions of Mexican citizens who maintain bank accounts in the U.S. or Europe.

Free trade fallacies

As Congress looks at whether to pursue an FTA with Mexico, it is important to assess the economic impact of an agreement on both countries. Most, if not all, of the assumptions frequently thrown about with respect to how a Free Trade Agreement would affect both the United States and Mexico are based upon false information, and are therefore misleading. Consider these examples:

- Jobs losses: The prospect of job losses in the United States and Canada has been raised by a number of labor leaders and protectionist members of Congress, but I would argue that whether we achieve an agreement or not will be largely irrelevant in terms of erosion of U.S. wage levels for low-skilled jobs. Labor is highly mobile, and even relatively prosperous Mexican workers have a very strong incentive to immigrate north to this country.

If new factories are not built in Mexico, then they will be built along the borders, and Mexicans will cross over, illegally or otherwise, to take jobs that still pay hundreds of times more than a similar position in Mexico -- and in dollars. Falling real wages as well as a lack of new jobs for the million-plus new workers who annually enter the

Mexican workforce represent a powerful economic force. As we have all seen with fruitless attempts to stem illegal immigration, the sheer weight of the supply of labor on the other side of the border renders political decisions in Washington or Mexico City moribund.

- Mexican growth: Proponents of free trade argue that a pact will compel the Salinas government to continue the "reforms" initiated since 1988. Yet here again a conclusion is based upon a false premise; namely that Mexico has made the major structural changes required to actually benefit from free trade. Such arguments also ignore the huge degree to which Mexico's present "stability" remains dependent upon subsidies and loans from abroad. Would CCC subsidies, access to the New York Fed, and EXIM Bank credits end if Washington negotiates an FTA with Mexico? Mexico's corrupt government will continue to use foreign loans and capital flows, augmented by selective "privatizations," to maintain sufficient cash flow to support that part of the state sector crucial to PRI political power, but more fundamental changes in Mexico's economy are simply not "on the table" until Mexico achieves a more democratic governmental formulation.

- Pollution: Environmental Protection Agency chief William K. Reily wrote in the Wall Street Journal last week (April 19) that Mexico's environment will improve with free trade because of a stronger Mexican economy and a "commitment" from Mexico's government. But besides resting his position on the false assumption of economic growth, Secretary Reily also commits a fatal error in believing pronouncements by the Mexican government. Believing that new rules and regulations to control pollution in Mexico

will translate into cleaner air and water on either side of the Rio Grande is a huge leap of faith in a country where bribery and corruption, not the letter of the law, governs everything from daily business transactions to the choice of the country's next president. Placing great weight in the steady flow of promises coming from the Salinas government on virtually any issue is naive at best.

- Oil: Finally, I would again caution members of the Committee against being drawn into support for an FTA with Mexico based upon arguments of national security with respect to future access to Mexican oil. Growing domestic demand and falling production means that the Mexicans will need all the oil they have for themselves in only a few short years. Before the U.S. commits billions in EXIM bank loan guarantees, private capital and other support for investment in Mexican oil, that country's ability to export petroleum for hard currency should be carefully evaluated and made an explicit part of any agreement. Indeed, as part of its oversight of EXIM programs, the Committee should ask the agency to support its willingness to incur additional credit risk to Mexico based upon future oil exports.

Conclusion

In my opinion, the Administration's policy of emphasizing free trade, while acquiescing to increasing political repression and thuggery by the Salinas government as it seeks to maintain the PRI-controlled economic and political apparatus, is dangerous and contains serious risks

for both countries. You cannot have free markets and free enterprise without political freedom, yet this is what the Bush Administration wants us to believe. Nor can you expect Mexicans to be grateful to the United States for supporting their oppressive government with new loans and investment. When Mexico does finally elect its first honestly chosen President in many decades, perhaps as early as 1994, he may attack the U.S. government for its support of PRI rule.

As you will hear from the next witness, the goverment of Mexico is one of the most oppressive regimes in the hemisphere, second only to Cuba in terms of the effective limits on freedom of speech and the press, disregard for private property, and lack of respect for democratic processes.[10] But Mexico's poor record on human rights violations, official tolerance of and involvement in the narcotics trade, and electoral fraud are only part of a larger political malaise that even today prevents Mexico, a country rich in human and natural resources, from reaching its full potential.

Bush Administration optimism about the benefits for Mexico and the United States of a Free Trade Agreement tends to obscure enduring structural problems that still hinder Mexico's recovery from a decade of crisis. While in the abstract free trade is always the preferred route, the Congress needs to examine both the economic situation, as well as the political motives underlying the Bush Administration's support for Mr. Salinas, before endorsing any trade agreement between the U.S. and Mexico.

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NOTES

1 Members of the Committee interested in U.S. financial support for Mexico should see "Review of Treasury Department's Conduct of International Financial Policy," Committee on Banking, Finance and Urban Affairs [Serial No. 101-163] August 14, 1990, pp. 75-111.

2 Ibid. See also: "Mexico: America's Next Iran?," The New York Times, July 30, 1990.

3 It is important to recognize that as a purely technical, legal matter, governments in Mexico did not, and do not today, have the power under the country's constitution to incur the "public sector" debt; that is, transfer to foreign parties claims on the several Mexican states. Moreover, Mexican legal scholars argue that the debt renegotiations have made foreign claims with respect to public sector debt "null and void" under Mexican constitutional law. Thus it becomes apparent why Washington and the international banking community would prefer not to see a government in Mexico that is not beholden to foreign banks, such as Mr. Cardenas.

4 For further background on the use of project loans for general solvency purposes and related topics, see Melanie S. Tammen, "The Precarious Nature of Sovereign Lending: Implications for the Brady Plan," Cato Journal, Vol. 10, No. 1 (Spring/Summer 1990), p. 10. See also: Sol W. Sanders, Mexico: Chaos on Our Doorstep, pp. 11-12, Madison Books (1986,1989) [ISBN 0-8191-7296-0]. Sanders' book is a wonderful background volume for those not well-acquainted with Mexico's uniquely corrupt political and economic institutions. See also Walker F. Todd, "A Brief History of International Lending From A Regional Banker's Perspective," George Mason University Law Review, Volume 11, No. 4, Summer 1989.

5 For further information see the Audit Report No. 07001-2-Hy, March 1991, issued by the USDA, Office of Inspector General, Northeast Region. While the report deals primarily with irregularities found in

loans to Iraq, it includes mention of several transactions involving Mexico. Also, it is interesting to note that the single most powerful person in Mexico when it comes to food imports is Raul Salinas, the Mexican President's brother and former head of the state food monopoly, CONASUPO.

6 Through what is known as the "Solidarity" program, the PRI/government apparatus channels funds into public works, infrastructure and other projects in areas where political support for the PRI is low. As important mid-term elections approach this August, the "Solidarity" campaign will swing into high gear, distributing free food in poor neighborhoods and providing vouchers for tortillas on election day to at least superficially buy votes for the ruling party.

7 El Norte, "Suben basicos hasta un 500% desde 1987," February 15, 1991 (see Appendix).

8 Ibid.

9 For further background on Mexico's oil situation, see the attached article from Barron's, "Wasting Asset: Trouble Ahead for Mexico's Oil Monopoly"; Sharon Reier, "The Pemex Paradox," Financial World, July 24, 1990, p. 24; and reports filed by Richard Johns of the Financial Times prior to his departure from Mexico City at the end of 1990.

10 For an extensive discussion of human rights abuses and electoral irregularities, see: "Mexico: The Crumbling of the 'Perfect Dictatorship'," World Policy Journal, Volume VIII, No. 2, Spring 1991, p. 255; "Human Rights In Mexico: A Policy of Impunity," Americas Watch, June 1990; "Attacks on the Press 1989," Committee to Protect Journalists, March 1990; Amnesty International: 1990 Report, pp. 161-163; Larry Rohter, "Government Critics Harassed in Mexico, Setting Off A Storm," New York Times, June 21, 1990, p. 1; "Mexico's Choice: Barbarism or Law," Los Angeles Times, June 20, 1990; and Sergio Munoz, "The Dark Side of Mexico That Officials Rush to Deny," Los Angeles Times, June 3, 1990.

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APPENDIX

BARRON'S
October 22, 1990

Depleting Asset

Trouble Ahead for Mexico's Oil Monopoly

By CHRISTOPHER WHALEN

WITH Iraq's invasion of Kuwait, the possibility of tapping Mexican oil supplies has again risen to the top of many minds in Washington. President Bush, himself a former player in the Mexican oil business, requested and received an additional 100,000 barrels per day of crude exports from the Mexican government, a concession that caused a political uproar in Mexico City.

The modest size of the increase in crude sales to the U.S. is no slight to Bush. The Mexican state oil monopoly, known as Pemex, cannot maintain, let alone boost, current output levels. A Pemex report released earlier this year predicts that even with "massive" new investments from abroad, Mexico will be a net importer of crude by 1997.

This disclosure should shock casual observers of the petroleum industry as well as holders of Mexican stocks and Pemex debt. Surely, with 50 billion barrels of "proven" reserves, Mexico should be a major exporter in the next century and beyond. But despite borrowing nearly $100 billion from abroad and squandering almost as much in oil revenues over the past two decades, four governments in Mexico City have allowed oil production capacity to decline to the point of near collapse.

On the surface, Mexico's energy outlook should be bright. The dollar value of oil exports in 1989 totaled $7.28 billion, up almost 25% from the previous year. Pemex has begun to rationalize its production operations into different operating groups. Natural gas is now gathered rather than simply flared. And perhaps most notably, Pemex has de-unionized its engineers, eliminating the socialist seniority system that placed incompetent officials in management positions.

President Salinas has ordered Pemex to raise output. Discussions are under way with foreign joint-venture partners about production of secondary petrochemicals, a major departure from the protectionism of the past 60 years. But while petroleum has quietly been made an explicit part of U.S.-Mexico trade talks, allowing full foreign participation in developing and producing Mexican oil still seems a distant possibility.

More significant than any change in Pemex operations to date or in the future is the fact that declining investment in exploration and equipment has forced production down from three million barrels a day in 1982 to the official 2.5 million b/d today. Pemex projects that total output will drop further to 1.5 million b/d by the year 2000.

Pemex's motto, "to the service of the nation," is ironic: 75% of revenues go to Mexico's treasury.

Pemex oil export earnings represented 31% of the hard-currency flowing into Mexico last year. Price increases due to the Middle East crisis will, of course, help in the near term. This temporary surge in revenues, however, is a mere blip in a long-term decline in production. And falling crude output is only part of the problem.

Domestic demand for petroleum products in Mexico is advancing by roughly 7% annually, according to Raphael Quinjano, formerly Pemex's liaison to Washington. Some reports suggest that gasoline consumption is growing as fast as 12% this year. Even at the lower rates of growth, domestic consumption will exceed total Mexican output of crude and refined product by the end of 1996.

All this means that Mexico can't exploit higher world prices by selling more oil. Still worse, it is increasingly vulnerable to rising costs for imported energy. For example, Pemex imported 6,000 b/d of gasoline in 1988, but last year purchases soared to the equivalent of 77,360 b/d, at a cost of $900 million per year in scarce dollars. Moreover, imports of fuel oil in 1989 amounted to 190,459 b/d, up 17% over 1988, at a cost equivalent of $1.2 billion per year (conversions at 2,900 pesos per dollar).

The inability of Pemex to satisfy domestic demand—as well as the country's desperate need for hard currency through increased oil output—stems at least in part from the fact that new capital expenditure by Pemex has fallen by over 75% since 1980. As a result, the company recorded a deficit in refined products of just over $1 billion in 1989.

Part of the problem is that Pemex is at once a welfare agency and an oil company. Compare, for example, its 170,000 employees (not counting contractors, etc.) to the 27,000-man work force of a similarly sized company such as Arco. Pemex doesn't have first call on export revenues for developing new oil wells, refining capacity and other capital investments, or even to service external debts, because the insatiable needs of the state for revenues come first. Beyond immediate employees, Pemex's revenues support jobs and subsidies for millions of other Mexicans.

"To the service of the nation" is the corporate motto of Pemex, and what this means to the company's creditors is that more than three-quarters of revenues are diverted annually to the Mexican Treasury or the pockets of corrupt government officials. (*All* revenues actually pass through the Mexican Treasury before reaching Pemex.) In 1989, Pemex generated 35,440 billion pesos in revenues (roughly $13.4 billion), but 29,418 billion pesos went to the Ministry of Finance in taxes. The company was permitted to retain 11,049 billion pesos of its total tax bill last year, but this represented a 6% decline in real terms from 1988.

According to Roberto Salinas de Leon of the Center for Free Market Studies in Mexico City, less than 1% of "net" Pemex revenues that remain after transfers to the Mexican Treasury are invested in new capital equipment. Anyone familiar with the huge investments generally required for sustained oil

production will recognize that running a petroleum company on a "current" basis for any length of time is a recipe for disaster.

Pushing government demands on oil revenues is the burgeoning trade and current-account deficit, which poses an immediate threat to the still-infant economic reform effort in Mexico. Despite higher oil revenues, merchandise trade is expected to run billions in deficit in 1990 (1989's trade gap was \$3.5 billion) while the overall current account is widely projected to fall to a deficit of \$5 billion-\$6 billion, in large part because the much-heralded inflow of "flight capital" has not materialized to nearly the degree first anticipated.

To offset the growing dollar outflow from the Mexican Treasury to purchase food and other consumer goods such as gasoline, *and* to maintain payments on the remaining \$90 billion in sovereign debt, Pemex and other state companies have once again begun to borrow in the international capital markets through the issuance of bonds, by some estimates as much as \$1 billion of new money in the past 12 months.

One recent \$228 million deal led by Citicorp featured "future credit card receivables" for Mercury Bank & Trust Ltd., an affiliate of BanComer S.A., Mexico's second-largest commercial bank. Luckily for the Securities and Exchange Commission, the paper was "offered and sold outside of the United States." Pemex's most recent debt issue was a \$150 million three-year Eurobond deal led by Swiss Bank Corp., which came at par yielding 11.625%, or 3.5 percentage points over U.S. Treasuries. Compared with 4.9 percentage points over the curve for Chase Manhattan Corp.'s two-year "Dutch auction" subordinated notes, a cynic might call the yields on the Pemex deal a bit stingy, but it was "largely pre-placed," according to one broker in the underwriting group. A syndicate manager at another underwriter quipped that "this is the sort of deal where you sell the bonds and immediately destroy the evidence. I don't even have a prospectus."

From a high of \$22 billion in 1982, Pemex has paid down its overall foreign debt to approximately \$16 billion. It is noteworthy, however, that just as its net energy exports are falling, the least efficient energy company in this hemisphere has begun a new borrowing program, and there is every reason to believe that much if not all of the proceeds of this new debt is going directly to the Mexican Treasury. Yet investors have been eager to buy public and private bond offerings from Mexico's state companies because they have redeemed their debt securities at par in recent years, at least since 1958. The mystique of Mexican oil is an added attraction.

A Sept. 22 issue of the Euromarket weekly International Financing Review reported that the \$150 million raised by the latest Pemex bonds "will be used for extraction in the oil-rich Campeche Sound area." Bonds denominated in German marks, Austrian schillings and U.S. dollars have been issued by Pemex, apparently with the understanding that they are secured by the company's oil exports or reserves. This is especially amusing since an outside, independent audit of Pemex's oil reserves and assets has not been conducted since 1977.

The truth is that investors probably did not think to ask about details like collateral; they assume that oil revenues, or some segregated source of foreign exchange, backs the bonds. Yet the fact that banks in Europe and the U.S. have purchased these securities based upon such an implicit "understanding," that Mexico's oil exports provide security, is of more than passing interest.

The last independent audit of Pemex's oil reserves and assets was held in 1977.

First, Mexico's "net" energy exports will be minimal by mid-1993, raising significant questions as to the possibility of timely redemption of paper currently being issued. Second, existing oil exports have already been pledged as security on other loans, such as the multi-billion-dollar trade financing facility led by Bank of America. Quite simply, neither today nor at any time during the 1980s was there enough oil to cover all of the outstanding foreign claims on Pemex.

Since the early 1980s, Bank of America and roughly 50 other banks (originally as many as 80) have provided short-term credit facilities to Pemex (BOA officials refused to comment for this article). The BOA facility ranges between \$2 billion and \$4 billion, and is intended to finance self-liquidating trade transactions. It has frequently been used as a functionally unsecured overdraft facility, according to Federal Reserve sources.

The question of posting valuation reserves against the Mexico trade facility has not until recently raised official concern in Washington because of the *explicit* understanding that the 1.5 billion b/d of crude exports by Pemex is security for the loan. But realizing the "dynamic" nature of Pemex's financial situation, federal bank supervisors in New York recently approached BOA and other banks in the syndicate to suggest that perhaps it might be "prudent" to post valuation reserves against these short-term loans—especially in view of the fact that Pemex's debt issuance in the past year clearly exceeds the collateral available. Attorneys for the government-owned Mexican company quickly "came out of the woodwork," in the words of one federal official. They argued, quite correctly, that forcing banks to post reserves might hurt the market perception of Pemex—and this just as the company was busy issuing debt.

Pemex's growing hard-currency liabilities are just part of the \$10 billion in new dollar debt from the World Bank and International Monetary Fund, among others, incurred by Mexico since the abortive July 1988 "debt reduction" agreement. Rising interest payments and energy imports, and falling oil exports, are some of the reasons that Elmo Alanis Gomez, president of the Mexican Foreign Trade Council, recently told reporters that "there will be cash-flow problems in 1991."

Friends of Mexico's peculiar brand of authoritarian socialism will doubtless feel compassion as the source of 40% of the country's hard currency earnings gradually disappears over the next few years. But at the end of the day, the real joke may be on institutional investors who naively purchased new Pemex bonds simply because the old paper was redeemed at maturity. Holders of Mexican paper should remember that bonds issued before 1930 were written down twice before the recent era of full redemption began in 1959. There is for each generation of bankers, after all, a first time for everything. ■

Christopher Whalen is senior vice president of Whalen Co. Inc., a Washington consulting firm.

THE NEW YORK TIMES, MONDAY, JULY 30, 1990

Mexico — America's Next Iran?

By Christopher Whalen

WASHINGTON

During his speech on "enterprise for the Americas," President Bush called Cuba the lone holdout in "a resurgence of democratic rule" in the hemisphere. But Mexico, where honest elections have not been held in more than 30 years and political repression is growing, should be added to the list of countries resisting the global trend toward freedom.

Washington tolerates one-party rule in Mexico because the probable result of free elections — a left-wing, nationalist government — is unacceptable. The Bush Administration prefers the familiar "stability" of the increasingly authoritarian party known as the Institutional Revolutionary Party to a duly elected government.

President Bush's support for President Carlos Salinas de Gortari comes from practical concerns. First, Washington fears that a left-wing government would repudiate Mexico's debts, provoking a financial crisis. Large U.S. banks would be forced to turn to the Fed for support when the markets reacted to a default.

Second, the leading opposition figure, Cuauhtemoc Cardenas, opposes a trade agreement, especially involving expanded foreign participation in Mexican industries. He views foreign investment not as salvation but as a repetition of past foreign exploitation, and sees trade talks with the U.S. as a self-serving betrayal by a party that has mortgaged Mexico's future to bankers in New York, London and Tokyo.

Washington also believes, perhaps incorrectly, that Mr. Cardenas might seek changes in existing investments, including border assembly plants where low labor costs give U.S. businesses a competitive edge. Better wages and working conditions would decrease Mexico's attractiveness for U.S. companies.

U.S. liberals, who previously supported Mexico's vocal anti-U.S. posture, now view President Salinas not as a reformer but as the head of an oppressive, reactionary Government allied with U.S. business.

Americas Watch, a human rights organization, recently issued a lengthy indictment of Mexico in which it claimed that officially sanctioned violence is "an institutionalized part of Mexican society."

Acts of murder and intimidation against journalists and political candidates before and during the Salinas administration are catalogued in gruesome detail. Americas Watch suggests that Mexico's so-called anti-drug campaign is actually used to attack Government critics.

The weakness of Mr. Bush's "stability" strategy is that it assumes that Mexico's people accept continued tyranny. Despite oratory about reform, Mexico under Mr. Salinas is more dependent on U.S. support than ever. Thus, Washington shares responsibility for increasing repression south of the border.

World Bank loans, Fed and Treasury credits, Commodity Credit Corporation subsidies and Export-Import Bank guarantees show that Mexico is merely a U.S. client state. Mexico's foreign capital needs and overall indebtedness have grown since the July debt-reduction agreement. A chronic current-account deficit ($5 billion to $6 billion this year) financed by short-term debt is bleeding Mexico dry.

Americas Watch said electoral fraud remains widespread, and it raised old questions about whether Mr. Salinas truly won in 1988. Opposition leaders say he lost to Mr. Cardenas by 2 to 1, but the P.R.I. was accorded a miraculous 50.7 percent margin by the party-run Federal Electoral Commission, which still won't release the official vote count.

Ironically, Mr. Salinas has pushed through electoral "reform" legislation that will block opposition coalitions from competing in future elections. The law increases legal obstacles to establishing political parties and strengthen official vote-rigging mechanisms.

> President Salinas is no democrat.

Javier Livas, an ex-P.R.I. member who is vice chairman of the Mexico-United States Institute, in Washington, declared at a news conference that the election law "is in no way democratic," and argued that "reform of the system is impossible so long as the P.R.I. is in power."

Many in the U.S. are unaware of Mexico's authoritarian side. They believe public relations hype portraying Mr. Salinas as a democratic reformer in the image of Mikhail S. Gorbachev who welcomes investment and is pushing to expand private participation in Mexico's centralized economy. In fact, Mr. Salinas, like Mr. Gorbachev, is the leader of an entrenched statist regime that owes its very existence to economic control.

The proposed sale of nationalized banks is a case in point. Ownership stakes will be limited to a maximum of 5 percent, and the Government will retain a veto over board appointments, forcing investors to tolerate de facto state control over management decisions. Stock without voting rights is really a loan.

Mr. Salinas offers foreign and domestic interests a bigger, albeit nonvoting, role in financing Mexico's economy but without reducing P.R.I. control. Indeed, the party's real goal is to persuade foreign investors to finance continued P.R.I. rule over the economy while denying basic democratic freedoms and the right to run a business free of Government interference.

Washington may view the choice between Mr. Salinas and the opposition as a matter of prudent U.S. self-interest. But, based on what Mr. Bush ultimately decides, 90 million Mexicans will live under tyranny or freedom. Or Mexicans may finally cast aside their legendary patience and take to the streets in major cities in an explosion that will make the 1968 riots in Tlatelolco look mild by comparison. Mexico might well become America's next Iran.

President Bush says he wants to see a Mexico "with a common commitment to democracy" develop into a full partner with Canada and the U.S. The way to start the process is to demand international supervision of the 1991 and 1994 elections — the next major elections — as a condition of further financial assistance. □

Christopher Whalen is an international trade and financial analyst.

EL NORTE, Viernes 15 de Febrero de 1991

Hipólito

NEGOCIOS

ECONOMIA, FINANZAS, ALTA TECNOLOGIA

Ecol

Los

a la

arbo

Suben básicos hasta un 500% desde 1987

Salarios aumentan 114%; inflación general 177%; y dólar 33%

Por ALFREDO H.GONZALEZ

Aumentos de precio hasta de un 500 por ciento alcanzaron los productos básicos en los tres años de concertaciones dentro del esquema del Pacto, reveló un estudio elaborado por EL NORTE.

El análisis mostró incrementos de precio por encima de la inflación en los bienes de consumo más apremiante desde la primera etapa del Pacto -en diciembre de 1987- hasta el cierre de enero de 1991.

Los productos que más se han encarecido, con alzas superiores a las de los salarios y la inflación, son el azúcar, vivienda, tortillas, agua, renta, arroz, frijol, pasaje de camión, educación y esparcimiento, carne de res, leche, gasolina extra y pastas. *(ver ilustración).*

La inflación creció en el periodo un 177 por ciento y los salarios sólo se incrementaron un 114 por ciento.

El dólar se quedó rezagado, con un incremento de 33 por ciento en el periodo.

El impacto de la carestía afecta más a la canasta básica que a las empresas.

Los insumos de uso industrial como el gas natural, energía eléctrica, acero y fletes tienen alzas menores a la inflación.

Los precios de los refrescos, huevo, zapatos y harina crecieron en el periodo menos que la inflación, pero no es tanto su rezago como el de los salarios.

Sólo algunos básicos han incrementado sus precios por debajo del alza salarial en los últimos tres años como son la luz doméstica, pan de caja, aceite, manteca, galletas y queso.

Productos de consumo menos apremiante como los cigarros y la cerveza, tienen alzas de precios menores al crecimiento salarial, pero los productores están por registrar un incremento.

El análisis mostró que la ropa tuvo incrementos de precio menores que la inflación en lo cual influyó la apertura comercial.

De acuerdo con el estudio, los precios de los básicos crecieron más rápido en los dos años de concertaciones del sexenio del Presidente Salinas en comparación al Pacto que introdujo el exmandatario Miguel de la Madrid.

En la primera etapa del entonces Pacto de Solidaridad Económica (PSE), a fines del presidente Miguel De la Madrid, el precio de las tortillas aumentó 39 por ciento en un año y después; con el PECE, el alza alcanzó un 207 por ciento adicional en dos años.

En los primeros 800 días de la administración del presidente Salinas que se cumplieron el pasado 8 de febrero, la inflación tuvo un incremento de 59 por ciento y los salarios un 51 por ciento.

Los especialistas consideran que hay un deterioro menor del poder adquisitivo en el actual sexenio.

Sin embargo, advierten, la inflación golpeó más fuerte el nivel de vida de los mexicanos con menores ingresos.

"Este efecto se debe a que los precios con incrementos más pronunciados son los de productos básicos", dijo analista.

"Los productos que adquiere una familia con salario mínimo han crecido lo suficiente para originar una baja en su consumo ".

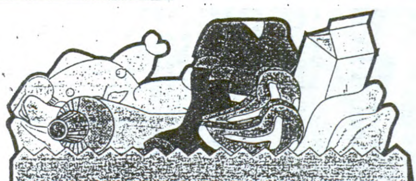
Economistas señalan que los bajos niveles de inflación que ha logrado el Pacto no implican necesariamente una mejora en el nivel de vida de toda la población mexicana.

La política de eliminación de subsidios hace más realistas las finanzas públicas pero deteriora en el corto plazo el nivel de vida de la población.

Productos que no son de consumo básico como la ropa, cigarros y cerveza, tienen incrementos menores que los de la leche, arroz y frijol.

Una camisa de hombre en enero de 1991 es 113 por ciento más cara en relación a diciembre de 1987. La cerveza aumentó su precio un 106 por ciento en el mismo periodo.

La cerveza, los cigarros y el dólar están entre los productos con menores alzas de precio.



MACROALZAS...

(Variación nominal registrada entre 1987 y 1991)

Artículo	Precios en nov.87	Precios en ene.91	Aumento
Azúcar (kg.)	$286	$1,730	505%
Vivienda**	–	–	370%
Tortillas (kg.)	$270	$1,150	326%
Agua (por m3)	$122	$514	321%
Renta (vivienda típica)	$80,872	$332,311	311%
Arroz (kg.)	$424	$1,570	270%
Frijol (kg.)	$790	$2.660	237%
Pasaje de camión	$200	$600	200%
Educación y esparcimiento**	–	–	198%
Carne de res (kg.)	$5,240	$15,575	197%
Leche (litro)	$430	$1,250	191%
Gasolina Extra (litro)	$310	$900	190%
Pastas (paquete)	$240	$670	179%
INFLACION			177%
Gasolina Nova (litro)	$267	$710	166%
Refresco	$155	$400	158%
Gas industrial	–	–	145%
Energía eléctrica industrial			142%
Huevo (kg.)	$1,220	$2,900	138%
Zapatos de hombre	$32,749	$75,724	131%
Harina (kg.)	$587	$1,314	124%
SALARIOS MINIMO (por día)	$5,102	[illegible]	114%
Camisa	$12,470	$26,538	113%
Cerveza (canasta con 6)	$3,739	$7,720	106%
Cemento (por tonelada)	$121,325	$245,000	102%
Luz doméstica (kilowatt/hora)	$42	$84	98%
Pan de caja	$950	$1,850	95%
Aceite (litro)	$1,590	$3,050	92%
Manteca (kg.)	$1,590	$2,988	88%
Cigarros (cajetilla)	$840	$1,563	86%
Galletas (kg.)	$1,827	$3,398	86%
Queso (kg.)	$9,400	$16,150	72%
Fletes por FFCC*	–	–	50%
Café (frasco)	$3,034	$4,400	45%
DOLAR LIBRE	$2,228	$2,970	33%
Acero	[illegible]	[illegible]	32%

NOTA: La inflación corresponde al Indice nacional de precios al Consumidor (INPC), los salarios a la remuneración mínima en el Area metropolitana deMonterrey. *Corresponde a la tarifa que se aplica al traslado de minerales **Corresponde al rubro genérico que publica el Banco de México.

LA OPINION Lunes 15 de abril de 1991

LA OPINION

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Por Lorenzo Meyer

La mañana del 19 de marzo una corresponsal extranjera en la ciudad de México me dijo: "Bueno, gracias al Congreso de los Estados Unidos los habitantes de esta ciudad inhalarán un poco menos de sustancias venenosas." El comentario era una explicación del sorpresivo cierre de la refinería de PEMEX en la capital mexicana que un día antes había anunciado el presidente Salinas.

Sin matices, esa explicación es parcial pero no necesariamente falsa. Como todas las medidas espectaculares tomadas por el actual Gobierno mexicano, el cierre de la vieja refinería, fuente del 4% de la escandalosa contaminación de la capital mexicana, no obedece a una sino a varias razones, y la influencia norteamericana puede ser una de ellas.

Entre las razones de índole interna está el hecho obvio que 1991 es un año electoral en México —elecciones legislativas y algunas locales— y que esas elecciones, sin llegar a ser aún la fuente de legitimidad que debieran, tienen ya un significado diferente de las del pasado. Cada vez más el grupo gobernante, para mantener su tradicional monopolio del poder, se ve empujado a intentar reemplazar los votos ficticios producto del fraude, por otros auténticos, y para ello debe, al menos de tarde en tarde, tomar acciones que sean vistas por el público como respuestas a sus demandas, sobre todo un público tan difícil como el de la gran ciudad de México. Con la clausura de la refinería —clausura que hasta hace apenas unas semanas se decía que era imposible por el alto costo de su reemplazo— se espera que el votante capitalino, aunque siga viviendo en uno do los ambientes más contaminados del planeta, se muestre menos irritado con el Gobierno y su partido, monopolizador del poder desde su nacimiento en 1929.

Pero el que el Gobierno mexicano haya encontrado de manera tan súbita la voluntad y los recursos económicos para cerrar la gran refinería de la ciudad de México, no se explica sólo por razones internas, sino también, y quizás principalmente, por las externas. Como se sabe, la pieza central del gran proyecto económico y político salinista es la firma de un Tratado de Libre Comercio (TLC) con Estados Unidos y Canadá, y la lógica del cierre de la refinería capitalina no es, para nada, ajena a este proyecto. La clausura de la gran contaminadora juega ahora el mismo papel en relación a las presiones de los ecologistas norteamericanos que la creación de la Comisión Nacional de Derechos Humanos (CNDH) jugó el año pasado frente a las de los grupos que en el país del norte exigían la modernización de México en materia de policía y justicia.

Como se recordará, a mediados de 1990 —el 6 de junio, para ser precisos— y en vísperas de un viaje a Washington donde habría de firmar una declaración conjunta con el presidente Bush proponiendo la firma del TLC, el presidente Salinas anunció la creación de la CNDH. Para entonces el Gobierno mexicano se encontraba bajo ataque en Estados Unidos por la tortura y asesinato de Enrique Camarena, un agente antinarcóticos norteamericano secuestrado por narcotraficantes en Guadalajara con la complicidad de la policía y ciertas autoridades mexicanas, lo que puso el tema de la violación de los derechos humanos en México en las páginas y pantallas de la prensa y televisión norteamericanas. Las denuncias de la agencia Antidrogas de Estados Unidos (DEA) sobre el caso Camarena, aunadas al detallado y escalofriante informe que publicó en 1990 la organización Americas Watch sobre la conducta ilegal de policías y militares en México, fueron el acicate necesario para que finalmente el presidente Salinas decidiera dar forma a una Comisión Nacional de Derechos Humanos, como única vía para hacer aceptable ante los círculos de opinión norteamericanos, la petición del Gobierno mexicano de firmar un tratado de libre comercio con Estados Unidos.

En el reciente viaje del presidente Salinas a los Estados Unidos, como en el caso anterior, el tema central fue defender en ese país ante funcionarios, congresistas y grupos no gubernamentales, la propuesta mexicana de libre comercio. Sin embargo, hay nuevas piedras en el camino de tan magno proyecto. En efecto, en el Congreso norteamericano ya se dejó sentir la fuerza de una coalición de sindicalistas y ecologistas que se oponen al TLC por razones ecológicas y laborales.

El 11 de marzo, los líderes de los poderosos comités de finanzas del Senado y de medios y arbitrios de la Cámara de Diputados de los Estados Unidos, Lloyd Bentsen y Dan Rotenkowski, pidieron al presidente Bush en sendos comunicados, que explique cómo piensa abordar en el propuesto TLC los temas de protección al medio ambiente en la frontera y de creación de empleos baratos en México a costa de los existentes o futuros en Estados Unidos. Es en estas circunstancias donde el cierre de la refinería que operaba en medio de la ciudad de México adquiere un claro significado de naturaleza externa.

En papel, México tiene ya una serie de instrumentos legales para salvaguardar a su medio ambiente. Sin embargo, ¿quién va a ser el ingenuo legislador norteamericano que, frente al conocido desastre ecológico en que se ha convertido la ciudad de México, realmente crea que en la elite política mexicana hay la voluntad y el sentido de responsabilidad necesarios para hacer realidad los códigos de protección ecológica en la frontera con Estados Unidos? Frente a esa posible y lógica incredulidad, el Gobierno considera que con el cierre de la refinería de la ciudad de México pese a su alto costo económico y social —500 mil dólares y más de 5,000 trabajadores cesantes— tiene una prueba objetiva de que en materia ecológica es tan responsable como el que más.

En el nuevo contexto internacional de México, las decisiones políticas que propiciaron la creación de la CNDH y el cierre de la refinería, aparecen como botones de muestra del poder que podrá llegar a tener la influencia norteamericana en ciertas decisiones básicas del Gobierno mexicano. Es una influencia de doble filo, a veces puede ser positiva, pero no hay ninguna garantía de que los intereses norteamericanos y los de la mayoría de los mexicanos vayan siempre a coincidir. Y la posibilidad de que en un conflicto de intereses los de los mexicanos salgan perdiendo es muy grande, y no sólo por el enorme peso relativo de Estados Unidos frente a México —la economía al norte del Bravo es 30 veces superior a la del sur— sino porque la institución que en México lleva la relación con el exterior sigue actuando fuera de cualquier control social efectivo, pues la transición mexicana a la democracia aún no tiene lugar.

Lorenzo Meyer es profesor de Relaciones Internacionales en el Colegio de México.

FELIPE DIAZ GARZA

Al desarrollo sin la libertad

El capitalino Carlos Salinas está muy preocupado por la ecología.

Al menos así lo indican sus palabras al inaugurar hace tres días en su casa (todo en este país se inaugura en la casa del Presidente) la Reunión Regional de América Latina y el Caribe sobre el Medio Ambiente y el Desarrollo, en preparación a la Conferencia de las Naciones Unidas sobre el Medio Ambiente y el Desarrollo.

Salinas de Gortari dijo que un medio ambiente deteriorado y lesionado puede cancelar las posibilidades de la recuperación económica.

Señaló el Presidente que cada vez hay más consenso en la "necesidad y en la posibilidad de impulsar un desarrollo sostenido y limpio que valore y reproduzca adecuadamente el capital que la naturaleza nos legó. No es viable un desarrollo que se funde en la depredación de recursos y la destrucción del medio ambiente". Advirtió que "esto no es un desarrollo, sino más bien una regresión".

Ciertamente que es importante que el Presidente de la República esté preocupado por la protección al medio ambiente; pero más importante sería que esa preocupación se extendiese a la ecología política, cuya protección parece tener sin cuidado al capitalino Salinas.

No hace mucho que el Presidente, en entrevista a este periódico, advirtió que para él es prioritario el desarrollo económico frente al desarrollo político, lo cual, utilizando las mismas palabras presidenciales "no es un desarrollo, sino más bien una regresión".

Y vaya que es regresiva la conducta que, respecto a la selección de candidatos a gobernador del partido del Gobierno, ha adoptado el régimen que Carlos Salinas preside. Por ejemplo en Nuevo León, se les jugó el dedo en la boca a los priístas y a los nuevoleoneses en general con la cantaleta de que las cosas cambiarían y que estábamos en la alborada de una nueva era política.

Al final el juego resultó el mismo: la grotesca y ridícula farsa de los cinco precandidatos haciendo marchas de kinder y entonando al alimón alabanzas para el autoritarismo del capitalino Salinas. Y la prueba de que es una cursi farsa es la salida del juego de Ricardo Canavati, quien no quiso hacer el ridículo ni hacerle el juego al Presidente. Y que no inventen la quemadura solar de que hizo encuestas que le demostraron que no ganaría: eso nomás un bebé de chupaleta se lo cree.

Canavati les aventó el arpa porque no quiso ser el patiño de Carlos Salinas, como los son y bien a gusto sus colegas Sócrates, Romeo y los Napoleones, quienes de épicos, sabios, atrevidos y buenos guerreros nomás los nombres tienen.

El Presidente impuso en Nuevo León a Sócrates (porque ya lo impuso), impuso en Guanajuato al charro cantor de Torres Mochas, Ramón Aguirre y en San Luis Potosí al profeta del pretérito Fausto Zapata y en Querétaro a como quiera que se llame el designado por el dedo capitalino. Y los puso porque lo obedecen sin rechistar y/o porque quién sabe qué les deberá.

Un medio ambiente deteriorado y lesionado puede cancelar las posibilidades de la recuperación económica, dice el Presidente, muy preocupado por la cuestión ecológica. Pero es clarísimo que no le importan las consecuencias que puede acarrear un medio ambiente político deteriorado y lesionado, como sin duda alguna está siendo deteriorado y lesionado, y por mano presidencial, el medio ambiente político mexicano.

Al aplastar las esperanzas de desarrollo político del pueblo de México, el régimen puede cancelar las posibilidades mexicanas de recuperación. El modelo de desarrollo sin libertad le fracasó a Pinochet, quien lo sustentó en horrores sin nombre que hoy están saliendo a la luz. Otra vez en palabras del propio capitalino Carlos Salinas: "No es viable un desarrollo que se funde en la depredación de recursos" (la libertad) y la destrucción del medio ambiente" (político).

Las decisiones políticas que el régimen está tomando actualmente y las declaraciones de su líder, el Presidente Salinas, revelan que se está buscando precisamente el ideal pinochetista de promover el desarrollo a costa de la libertad. Y además está claro que el Presidente quiere para sí el control total de las decisiones políticas y la uniformidad total silenciosa, pues todos los gobernadores que está imponiendo tienen, si acaso, categoría y talento para ser sus mandaderos obedientes. Por eso los impone.

Pruébeme usted que miento y me hará feliz.

WORLD POLICY INSTITUTE

STATEMENT OF ANDREW REDING
SENIOR FELLOW FOR HEMISPHERIC AFFAIRS
WORLD POLICY INSTITUTE
BEFORE THE COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES
ON THE POLITICAL CONTEXT OF THE
U.S.-MEXICO FREE TRADE NEGOTIATIONS

APRIL 24, 1991

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Mr. Chairman and members of the committee:

I welcome the opportunity to share with you some observations on the present state of Mexican democracy, and to suggest how these affect the prospects for economic integration with the United States. I shall divide my observations in three parts, first addressing the question of how Mexico is governed, then examining how Mexico's form of government conditions attempts at economic reform, and finally suggesting how we might secure the benefits of free trade without unacceptable costs.

A. Understanding the nature of the Mexican political regime.

1. Proponents of "fast track" negotiation of a free trade agreement with Mexico are seriously exaggerating, if not misrepresenting, the extent and authenticity of reform in Mexico under the administration of President Carlos Salinas de Gortari.

2. Despite a Constitution that provides for multiparty democracy and separation of powers, Mexico remains a de facto dictatorship. Mexico's system of one-party rule is second only to the Soviet Union in longevity. Though limited to a six-year term, the Mexican president exercises absolute powers during that period, controlling Congress, the Supreme Court, all electoral authorities, all major labor unions, the army, and almost all of the mass media through his leadership of the all-pervasive Institutional Revolutionary Party (PRI). At the conclusion of his term, he even designates his successor.

Peruvian novelist and presidential candidate Mario Vargas Llosa, who is otherwise sympathetic with President Salinas' economic objectives, recently characterized Mexico's political system as a "perfect dictatorship":

> The perfect dictatorship is not communism, not the Soviet Union, not Cuba, but Mexico, because it is a camouflaged dictatorship. It may not seem to be a dictatorship, but has all the characteristics of dictatorship: the perpetuation, not of one person, but of an irremovable party, a party that allows sufficient space for criticism, provided such criticism serves to maintain the

appearance of a democratic party, but which suppresses by all means, including the worst, whatever criticism may threaten its perpetuation in power.

3. While a democratic tide has swept the hemisphere, Salinas' "electoral reform" legislation has positioned Mexico firmly among the few anti-democratic holdouts. The president and his party maintain majority control of all electoral authorities, and the minister of the interior continues to chair the federal electoral commission, a feature now unique to Cuba and Mexico among Latin nations. While other Latin nations from Brazil to Nicaragua now announce results on election night, Mexico retains its distinctive week-long delay between balloting and announcement of results, a period customarily used to alter unfavorable tallies. Were this not enough, President Salinas has strengthened the "governability clause" in the Constitution, which ensures the ruling party an absolute majority in the Chamber of Deputies even if the opposition wins two-thirds of the popular vote. To my knowledge, the only other Latin American country to have had such a "safety lock" (as it is also known) on its legislature was Paraguay under General Alfredo Stroessner. When the dictator-president was removed, so was his restrictive legislation.

4. President Salinas has been misleading foreigners about the content and character of his "electoral reform." In a recent interview published in *New Perspectives Quarterly*, he emphasized that under the new legislation his nominees to the federal electoral council would have to be approved by two-thirds of the Chamber of Deputies, requiring consultation with opposition parties. He neglected to mention that the same legislation specifies that if a two-thirds majority is not achieved, the members of the council are to be selected by lot from among the president's nominees. Whatever happens, the president prevails, so that his nominees are in fact appointees.

5. Twice in the past year, the Inter-American Human Rights Commission of the O.A.S. has found Mexico to be violating the political rights of its

citizens under the American Convention on Human Rights, by allowing one party to control the electoral authorities, and by not providing effective means of challenging electoral fraud. Though Mexico ratified the Convention, and though ratified treaties are the "highest law of the land" under the Constitution, the Salinas administration has dismissed the findings as unwarranted intrusions on Mexican sovereignty. This response, I would submit, does not speak well of the Mexican government's intention to honor its obligations under international agreements.

6. President Salinas' hypersensitivity to O.A.S. admonishments about the Mexican electoral system may be easier to understand in the light of what is known about how he assumed the presidency. On election night 1988, the computerized vote-tabulating system the government had installed to demonstrate its commitment to "electoral transparency" went "down" as early returns showed opposition leader Cuauhtémoc Cárdenas ahead of Salinas. The government did not release "official" totals until a week after the balloting, a week in which tens of thousands of Cárdenas ballots were discovered in garbage cans, in smoldering roadside bonfires, and in soggy bales floating down rivers. Though Cárdenas' coalition was able to produce copies of official tally sheets from 55 percent of precincts showing Cárdenas holding to a four-point lead, the government insisted Salinas had won just a hair over 50 percent of the vote. To this day the returns from the remaining 45 percent of precincts are a state secret, under military guard. Statistical analyses of what figures the government did provide demonstrate that, in addition to destroying opposition ballots, the government inflated the ruling party's tallies by simply adding zeros (for example, turning 14 votes for the PRI into 140). Three different sampling methods which correct for detectable manipulations coincide in signaling, with very high degrees of confidence,

that Cárdenas won the presidency with 41-42 percent of the vote to Salinas' 35-37 percent. These results parallel popular perceptions: in a poll conducted in August 1989, *The Los Angeles Times* found that only one in four Mexicans believed Salinas was the legitimately elected president of Mexico.

7. By refusing to recognize the legitimacy of an unelected government, Cárdenas has turned every subsequent election into a referendum on the very nature of the regime. His Party of the Democratic Revolution (PRD) is explicitly named after the "democratic revolution" initiated by Mexicans at the polls on July 6, 1988. The name also sums up Cárdenas' political program, which calls for the creation of independent electoral authorities, a definitive end to one-party rule, and enforcement of the constitutional principle of separation of powers.

8. Because Cárdenas is directly challenging the absolutist presidency and one-party rule, the government is determined to block his party -- by whatever means -- from gaining control of a single state. Should the PRD win control of a state legislature, it has pledged to create independent electoral authorities. That would not only end PRI hegemony over that state, but would inevitably have a demonstration effect throughout Mexico, analogous to the effect of the Lithuanian declaration of independence throughout the Soviet Union.

The extreme case is Cárdenas' home state of Michoacán, where he won the 1988 presidential election by more than a three-to-one margin. In July 1989 elections for the state congress, the PRD was able to document clear wins in 14 of 18 legislative districts. Even so, the state electoral commission, using clumsily altered tally sheets, awarded 12 of the 18 seats to the PRI, enough to ensure that opposition parties could not rewrite the electoral law. In December 1989 local elections, the PRD was able to document clear wins in a majority of municipalities, including the state capital and the larger cities.

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Yet the state electoral commission again altered the results, nullifying the PRD's win in Uruapan, the state's second largest city, and ensuring continued PRI control of a majority of townships.

The citizens of Michoacán, angered by the government's contempt for their right of suffrage, responded to these offenses by occupying dozens of town halls throughout the state, and holding citizens' inaugurations of the legitimately-elected mayors and council members. The government at first responded with sporadic attacks by police and goon squads. Then in May of last year, as U.S. attention was riveted on Soviet tanks rumbling through Lithuania, President Salinas sent Mexican tanks rumbling into Michoacán to restore government control over the town halls. In their repression of popular protests against electoral fraud in Michoacán and elsewhere, government forces have killed dozens of opposition sympathizers.

9. To avoid repeating the embarrassment of Michoacán, the Salinas administration is perfecting new, less easily traceable, means of fraud. Rather than have to fiddle with the ballots after they are cast, it is now using computers to determine who will even be allowed to vote in the first place, and how many ballots each may cast. In this new cybernetic fraud, the PRI conducts door-to-door public opinion surveys in conjunction with electoral censuses. Computers compare the results, then selectively eliminate opposition voters from the rolls, while duplicating the registrations of PRI sympathizers. In Uruapan, Michoacán, where the technique was first perfected last June, it converted an earlier loss into a two-to-one landslide for the PRI.

The technique was applied with equally dramatic results in last November's congressional and municipal elections in the state of Mexico. Though the state had favored Cárdenas by a two-to-one margin in 1988, and though an independently conducted public opinion poll showed the PRD in the

lead, the government claimed to have won all 34 congressional districts and 116 of 121 municipalities.

10. Having successfully expanded its experiment in cybernetic fraud from the municipal to the state level, there is good reason to believe the government will apply it at the national level. This August, elections are to be held to replace the entire Chamber of Deputies and half the Senate. By all objective criteria, the PRI should be in serious difficulty. Real wages are less than half what they were ten years ago; the opposition is better organized than ever before; and, in contrast to the United States, there is no advantage to incumbency because the constitution prohibits reelection to consecutive terms. In the brave new world of cybernetic fraud, however, it is the opposition that has everything to lose. Barring any serious international observation of the forthcoming elections, President Salinas can reasonably expect to recover the two-thirds control of Congress that would allow him to modify the Constitution at will.

11. Electoral fraud is causing Mexicans to lose faith in the possibility of effecting change through the ballot box. Faced with the certainty that their votes will not be properly counted, opposition voters are staying home in ever greater numbers on election day. In last month's elections in Morelos, another state Cárdenas won by a two-to-one margin in 1988, less than one in four registered voters went to the polls.

12. As experience elsewhere in the region has demonstrated, the only reliable way of restoring opposition voters' confidence in the democratic process is through official observation of elections by such multilateral agencies as the United Nations and the Organization of American States. Such observation both places governments on warning that fraud will have serious consequences for their international standing, and signals citizens that impartial observers will in fact be watching how their votes are counted.

Wherever this has been tried, voters have responded in record numbers, often, as in the recent examples of Chile, Nicaragua, and Haiti, signaling their desire for fundamental change.

13. Mexico's need for a democratic opening is urgent. Absent democratic accountability, the Mexican government is trampling on the rights of its citizens. In testimony before two Congressional subcommittees last September, Amnesty International reported that its documentation indicates that more than 80 percent of citizens who are detained by the police, including men, women, and children, are tortured. It concluded that "human rights abuses in Mexico have become institutionalized," and that "Mexico today is a human rights emergency." In a recent report, Americas Watch characterized the Salinas administration's human rights policy as "a policy of impunity."

Though President Salinas created a National Human Rights Commission last June, the move again typified his administration's penchant for public relations gimmicks. The Commission was placed under the jurisdiction of the ministry of the interior; limited to a strictly advisory role; and prohibited from examining violations of labor and voting rights. Were that not enough, it was disclosed last week that Commission members had discovered electronic bugs in their offices.

The Mexican government's aversion to democratic accountability has, I will now suggest, serious

B. Implications for Economic Reform

1. The genius of the market is that it rewards productivity, provided the competitive playing field is kept relatively open and level. Thus *free* markets require evenhanded enforcement of well-defined ground rules designed to protect the rights of all participants in the marketplace, and to limit oligopolistic concentrations of economic power. Such objectives, I would

submit, are virtually inconceivable in an unaccountable system in which political power is itself so extremely concentrated.

2. In fact, many of Mexico's chronic economic problems are intimately related to its longstanding tradition of authoritarian rule. However different the Aztec *tlatoani* from the Spanish viceroys and post-Independence dictator-presidents that succeeded them, all maintained the common denominator of absolutist rule from Mexico City, through which they have repeatedly thwarted efforts at fundamental social change. Though the liberal upheaval of the 1860s and the revolution of 1910 gave birth to magnificent democratic constitutions, Mexico's presidentially-dominated "liberal" and "revolutionary" parties have, with few exceptions, undermined those constitutions.

This helps explain why Mexico retains a premodern social structure, with one of the world's most unequal distributions of wealth and income. Ethnic Spaniards continue to dominate the country's political and economic life, neglecting rural Mexico, which is overwhelmingly made up of Spanish-speaking native Americans. The social structure has fostered a plantation mentality (whose modern expression is the *maquiladora*, or low-wage assembly plant) that seeks comparative advantage in foreign trade by repressing the labor force rather than by investing in education and new technologies in order to raise productivity and create internal markets for sustained economic growth.

3. One cannot speak of a free market system where labor is not free. Mexican labor unions are controlled by the ruling PRI. The president or his subordinates routinely select labor bosses, who are then confirmed in office by pro forma elections. Any attempt to form a democratic union responsive to the needs of the rank-and-file is perceived as threatening the whole system of social control, and is repressed by whatever means necessary.

The conflict at the Ford Motor Company plant in Cuautitlán, state of

Mexico, is a case in point. Taking its cue from the government's policy of depressing real wages in order to promote its *maquiladora* export strategy, Ford broke its contract with the local union in 1987. It then laid off a quarter of the work force, slashed the pay of remaining workers in half, and wiped out accumulated seniority and pension benefits. Mexican Workers' Confederation (CTM) boss Fidel Velásquez, in his role of enforcer of government policy, sided with the company.

In March 1988, workers responded by electing independent leaders. Ford, with the backing of the government labor boss, then fired the dissident leaders and their identifiable supporters. In December 1989, the remaining 3,800 workers began work stoppages to demand the right to elect their own leadership, and to receive withheld profit-sharing payments & bonuses to which they were legally entitled. As the stoppages continued, buses bearing CTM markings delivered gunmen to the plant on January 8, 1990. Wearing company uniforms and credentials, the goons shot unarmed workers at random, killing one & wounding another eight. Workers managed to capture three of the assailants, who admitted to having been hired by the CTM and outfitted by the management of Ford. The CTM posted bail and provided lawyers for the defense. Workers then occupied the plant until they were dislodged by a force of a thousand state police on January 22. Then, oblivious to the unanimous repudiation of the workers, Fidel Velásquez appointed a new boss to head the union local. Needless to say, such repression maintains artificially low wage rates, and prevents gains in productivity from being properly reflected in wages.

4. Because Mexico is not a democracy, the burden of paying its $100 billion foreign debt has not been spread equitably throughout the population. Denied both an effective presence in Congress and a free labor movement, a

majority of Mexicans have been systematically denied representation or influence in the formulation and negotiation of economic policies. For that reason, interest payments on the foreign debt have in effect been made through a 60 percent reduction in the real wages of Mexican workers, and a comparable reduction in agricultural prices.

5. At the other extreme, Mexico's wealthy elite has actually profited from the crisis. This group has a disproportionate amount of influence in Mexico's political system for a couple of reasons. It is the only segment of society capable of buying any significant degree of influence. Its disproportionate share of the country's wealth also affords it effective veto power over government actions by the ever-present threat that it will transfer more of its assets abroad. Thus until recently, the de la Madrid and Salinas administrations deliberately maintained domestic interest rates at levels well above the inflation that was eroding wages. This policy staved off further capital flight and even caused some funds to return to Mexico. But these funds have not gone into capital investment. Given the opportunity to invest in safe, high-yielding, government bonds, Mexico's upper class has had little incentive to invest in new plants and equipment. On the other hand, the high rates of interest on those bonds caused Mexico's domestic debt to expand at exponential rates, to the point that in 1989 more than three quarters of the government's combined foreign and domestic interest payments were for domestic debt. Ironically, in the absence of political reform, economic reform has widened social disparities by redistributing income from the lower to the upper classes.

6. The disequilibrating effects of Mexico's political system extend to the valuation of the peso. Since Mexican inflation is much higher than inflation in the U.S., it stands to reason that the peso should be losing value in a proportionate way against the dollar. Yet a rapidly devaluating peso would

undermine rates of interest on domestic debt instruments, and invite renewed capital flight. It would also invite the wrath of the country's middle class, whose standard of living is presently being sustained in large measure through artificially cheap imports. With the regime's legitimacy already in question, and its *de facto* alliance with portions of the middle class-based PAN at stake, it can ill afford to stick to its free market prescriptions.

Instead, the Salinas administration has been devaluating the peso at a tightly controlled snail's pace of about 3 percent per year (inflation last year was at 30 percent, compared to about 5 percent in the U.S.). The resulting overvalued peso may have bought some domestic peace for the time being, but it has dramatically hurt Mexico's foreign trade accounts. The net result of keeping the peso overvalued while at the same time "liberalizing" the economy by lifting tariff barriers for imports has been to flood the country with imports and to make exports less competitive. This helps explain why the 1987 trade surplus of $8.4 billion shrank to $1.7 billion in 1988 and became a $640 million deficit in 1989, and a $3 billion deficit in 1990; so much for the Salinas administration's goal of export-driven growth.

7. The combination of liberalized import policies and an overvalued peso has hit hardest in Mexico's already depressed countryside. The artificially cheap dollar has helped push the food import bill from $3 billion in 1988 to $4.1 billion in 1989 and more than $5 billion in 1990. (Last year, after tortuous negotiations, Mexico secured $1.6 billion in debt relief — a figure equal to about a third of its food import bill for the year). Cheap imports have undercut domestic producers, whose costs exceed the price they can obtain for their commodities.

This outcome is no accident. Secretary of Commerce Jaime Serra Puche has timed the relaxation of import duties to coincide with domestic harvests in

order to force agricultural prices downward as a means of controlling inflation in the cities. He has been so zealous in this objective that the government has imported Chernobyl-irradiated powdered milk from Europe and aflatoxin-contaminated corn from the United States. The net effect has been to buy time in the cities, where the government is more vulnerable to social unrest, at the cost of the further deterioration of Mexican agriculture.

Rural Mexico is the prime victim of the government's economic policies precisely because it is the sector of Mexican society that is most completely locked out of the political system and most brutally repressed. No other country of Mexico's size has managed to build a successful modern economy without a strong rural base. Yet Mexico has pursued policies that have severely eroded the productivity of the countryside, as well as the quality of life for rural inhabitants. Thus, after a half century of "reform," a majority of *ejidos* (agrarian reform communities) lack drinkable water, and one third lack electricity. Most have been situated on marginal land, yet are denied any form of technical assistance and do not even possess a single tractor. Two in five lack access to credit for seed and fertilizer. Even if they could overcome such built-in limitations, the *ejidos* would have great difficulty marketing their produce, because the government has not provided paved access to three quarters of them; and one in six lack even a dirt road.

The reasons behind the low productivity of Mexican agriculture are no mystery. The government has not sought to invest in the countryside because the peasantry, despite its considerable size (one-quarter of Mexico's population is engaged in agriculture), has been locked out of any real power and routinely repressed by the regime's rural network of *cacique* enforcers. These conditions have forced Mexican peasants off the land. They migrate to urban squatter belts and to the United States in search of survival, which fuels unemployment, reinforces downward pressure on wages, and contributes

to urban chaos.

8. The absence of genuine political reform hurts the economy in other ways as well, undermining the very goals of liberal economic reform. Single-party rule leads to misallocation of resources as public funds are redirected to partisan ends. Repression diverts resources from needed capital investment, and fosters a climate of instability that frightens away private investors. State revenues are eaten up by the corruption essential to the maintenance of the regime's system of vertical controls. For example, Pemex, the government oil monopoly, grants transport and service contracts to a dummy corporation headed by Oil Workers boss Sebastián Guzmán Cabrera, and relies on his son for much of its contract work in southern Mexico. Labor Secretary Arsenio Farrell, who enforces the government's repressive policies toward labor, has been permitted to form bogus fishing cooperatives, which he has used to siphon federal loans into personal accounts. Much has been made of the cost of social spending by previous populist administrations. Yet it pales by comparison with the massive everyday diversion of public funds into PRI propaganda and electioneering, uncompetitive awarding of contracts to insiders, and outright embezzlement. That no public tallies are kept of this more substantial form of government spending only exacerbates the hidden effects on the economy, particularly the opportunity costs in a society in desperate need of public investment.

9. Corruption also stunts economic modernization by facilitating illegal, high-return, enterprises that divert resources from economic development. By far the most important of these is drug trafficking. Lured by large sum of money and virtual impunity, many of the country's top military and police commanders have forged lucrative ties with the international drug mafia. Enrique Alvarez del Castillo, who was governor of Jalisco when DEA agent

Enrique Camarena was tortured and killed by Mexican police based in the state capital of Guadalajara, and who was linked to the Guadalajara mafia by a DEA agent in the Los Angeles Camarena trial, is Salinas' attorney general. Secretary of the Navy Mauricio Schleske, whose sailors ran smuggling operations into Texas from the Matamoros naval base, was allowed to resign without prosecution last year when a nephew revealed he had not reported ownership of expensive homes in Houston, a clear violation of federal law. Since otherwise loyal officials are never indicted, and seldom dismissed, for corruption, there is little disincentive to engage in such practices.

10. With the government so thoroughly corrupted, state-owned enterprises are easy targets of mismanagement. Pemex is only the most prominent example. Half its revenues are taxed into the federal treasury, from whence a substantial fraction are diverted to personal and partisan ends. Less than one percent of Pemex after-tax revenues are recycled into capital investment, so that its plant is obsolete and deteriorating, and efficiency is abysmally low.

Absent political reform, wholesale privatization is the only conceivable remedy. Yet even privatization is vulnerable to the vices of old-style Mexican politics, including cronyism, abuse of presidential authority, and the corporatist repression of labor. Missing from the government's privatization efforts is any sort of open competitive bidding process that would help ensure that the public is getting its money's worth. Without such accountability, there is reason for concern that the state may be undervaluing its holdings in sweetheart sales to favored investors.

Telephones of Mexico (Telmex) is a case in point, all the more so because it has become President Salinas' model for privatization. Last fall, 51 percent of the controlling shares in the company were sold to a group of Mexican investors led by Carlos Slim, Salinas' favorite businessman.

Privatization in Mexico has meant has meant basically transferring enterprises from the country's political elite to its economic elite instead of seeking to decentralize ownership. The opposition, on the other hand, advocates creation of a broader base of ownership by including small investors, cooperatives, and labor unions in divestiture plans.

11. The absence of democracy not only distorts economic reform, but also erodes its base of popular support. If the majority has no say in the design and implementation of the reform program, and if the program creates distortions that benefit the few at the expense of the many, there will undoubtedly be strong opposition to economic reform. If Mexico's economic reforms are to result in a more efficient, productive, and equitable economy that is attractive to foreign and domestic investors alike, the country will need to have a fundamentally different political strategy -- one based on broad consultation and negotiation, to ensure that a majority of Mexicans have a meaningful stake in economic reform and will remain committed to it over the long haul.

C. Prerequisites for successful U.S.-Mexican Economic Integration

1. President Bush's meeting with President Salinas in Monterrey, Nuevo León, just a couple of weeks after the spectacular fraud in the State of Mexico elections, and a month after the Inter-American Human Rights Commission had found the electoral law of Nuevo León to be in violation of the American Convention on Human Rights, symbolizes his administration's indifference to the issue of democracy in Mexico. Whether such indifference is the product of ignorance or fear, the emergence of a peaceful, broad-based democratic movement in Mexico means that the issue can no longer be ignored. By giving its unqualified blessing to President Salinas, the Bush administration is in effect siding with an authoritarian regime next door at a

time when that regime is being questioned by its own people as never before.

2. President Bush's willingness to ignore electoral fraud in Mexico is all the more peculiar in view of his earlier insistence that Panamanian strongman Manuel Noriega "honor the will of the Panamanian people" as expressed in the 1988 presidential election, and his subsequent use of electoral fraud as a justification for invasion. Noriega's political party, it is worth noting, was modeled after the Mexican PRI. And I believe there is an object lesson to be learned from the Reagan-Bush administration's willingness to overlook fraud in the earlier 1984 Panamanian elections, when Noriega was still viewed as an ally. Support for authoritarian regimes abroad -- no matter how "friendly" to the United States -- inevitably promotes corruption, human rights abuses, and political and economic chaos. We would do well to learn that lesson before repeating it next door, where the stakes are much higher.

3. The emergence of a mass-based nonviolent movement for democracy and human rights in Mexico at a time when a major free-trade agreement is under discussion is fortuitous for both Mexico and the United States. As we have seen, free markets require free societies if they are to function properly. Pluralistic institutions help ensure that economic discipline will be applied more equitably, and that economic growth will translate into development for the whole society. They also help preserve social peace, indispensable to the maintenance of a stable environment for business. Furthermore, independent electoral authorities and a genuine separation of powers are the most reliable means of making leadership accountable, thus helping to ensure that economic reforms are not subverted.

4. Although the Mexican opposition has barely begun to work out the details of its alternative plan of economic reform, some of the broad outlines have begun to take shape. Mexico's authentic reformers -- notably the PRD and the Democratic Forum of the National Action Party (PAN) -- have begun

to articulate an economic program that builds on their embrace of political democracy. At the heart of their program is a demand for a genuinely free labor movement. Mexican democrats understand that adequate employment and fair wages are the essential building blocks of a more equitable distribution of income, and that independent, democratic, unions are the only way to ensure that wages will fairly reflect the productivity of labor. They also believe that health and safety standards, as well as environmental safeguards, will only be enforced if the rank-and-file are represented by labor leaders who are genuinely responsive to their needs and who are willing to pressure the government.

5. The new economic democracy advocated by the Mexican opposition has important implications for the proposed free-trade agreement between the United States, Canada, and Mexico. Ideally, the rationale for free trade is to promote the sort of healthy competition and complementarity that improves the overall productivity of the participants. As with any competition, however, certain uniform standards need to be observed in order to prevent cheating that undermines the ultimate goal. If Mexico persists in repressing its labor force, violating basic health and safety standards, and ignoring environmental protection standards, it can easily underprice even efficient U.S. industries.

That in turn encourages U.S. manufacturers to move their operations to Mexico so they can "cheat" in the same way. This results in a loss of jobs and income in the United States without a remotely comparable gain in Mexico; the Mexican-based operations are able to produce more cheaply not because they have higher productivity, but because social and environmental costs have not been incorporated into the price. This distorts the free market, rewarding opportunism over genuine gains in productivity.

6. For these reasons, the struggle for democracy on the part of the

average Mexican is very much in the interest of the average citizen of the United States as both nations become more closely integrated. Mexicans are coming to understand that their nonviolent, constitutionalist strategy for political change will -- like most such movements elsewhere -- undoubtedly require a measure of international support to succeed. They are now asking for a little help from their neighbors; not heavy-handed intervention, to be sure, but friendly collaboration from prospective partners. The PRD, the Democratic Forum of the PAN, and their allies have recently called for international observation of Mexican elections. In a related development, they have urged Congress to reject "fast track" authorization and condition a free trade agreement on inclusion of fair-trade provisions.

7. Congress can act on these requests without danger of being perceived as intervening in Mexican affairs, provided it does so in a multilateral framework. The proposed free trade agreement between the U.S., Canada, and Mexico would create a supranational economic entity, removing significant economic barriers. Each state that becomes party to such an agreement necessarily relinquishes part of its sovereignty. No state has the right to intervene in the affairs of another state unilaterally. However, each has a right to condition its entry into any form of union on the acceptance of certain common standards deemed essential to the success of the joint venture.

8. Congress should assert that right by conditioning free trade on multilateral guarantees of fair-trade practices. A vital element of any trilateral trade agreement between the United States, Canada, and Mexico should be a social and ecological charter that guarantees internationally-recognized labor rights for all North Americans, and that sets uniform occupational health and safety standards, as well as uniform environmental safeguards. Such standards should be explicitly understood to be floors, not ceilings, with each

participant reserving the right to set more stringent standards. The charter should also include prohibitions on the export of hazardous wastes, and on the export of products that are banned in their country of origin. The charter would be enforced by an independent trilateral trade commission, ideally composed of economists, labor representatives, and ecologists from the three countries. The commission, not the courts of any single nation, would be responsible for interpreting and enforcing the trade agreement.

9. Congress should also condition a free trade agreement on multilateral observation of Mexican elections, ideally beginning with the August 18 federal elections. There is nothing radical in such a proposal. Both the United Nations and the Organization of American States have already acquired considerable expertise in electoral observation from recent missions to Nicaragua, Haiti, and Chile, to name but a few examples. If it is good public policy to insist on multilateral observation of elections in Nicaragua, is there not all the more reason to do so with Mexico, a next-door neighbor with which the U.S. seeks economic integration?

There was a time when democracy could coexist side by side with authoritarianism, without major spill-over effects. In an increasingly interdependent world, and particularly where neighboring countries seek more effective integration of their economies for mutual benefit, that time has passed. That is why the European Community, with great foresight, conditioned the entry of Spain, Portugal, and Greece on the removal of authoritarian rule and creation of democratic institutions; and why it is now conditioning economic assistance to the newly independent nations of Eastern Europe on their progress in developing democratic institutions. We would be remiss to do otherwise with our prospective partners.

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'Salinastroika,' Si; Democracy, No

By Andrew Reding

As evidence mounts of widespread fraud last Sunday in a key regional election in Mexico, new questions arise about the persistence of authoritarianism and President Carlos Salinas de Gortari's commitment to democratization. It appears that, instead, he is committed to a police state.

When Mr. Salinas took office in 1988, he was widely expected to revolutionize politics. As Budget Secretary in the previous administration, he had initiated far-reaching economic reforms. With "Salinastroika" in full gear, it was thought, Mexican glasnost could not be far behind. Beneath banners that read "Let Mexico Speak," he promised to modernize politics by guaranteeing clean elections and an end to one-party rule.

Yet even as democratic transformations sweep the globe, Mr. Salinas has done little or nothing to move Mexico toward democracy. If anything, he has tightened the ruling Institutional Revolutionary Party's control over political life. The prime bulwark of Mexican authoritarianism remains the PRI's control of the electoral machinery. It dominates all electoral commissions, and the Interior Minister presides over the Federal Electoral Council, a condition found among other Latin nations only in Cuba.

As documented by official precinct tally sheets in the hands of the opposition, the Government recently used this power to steal elections from the center-right National Action Party in the state of Sinaloa, and from the center-left Party of the Democratic Revolution in the states of Michoacán, Oaxaca and Guerrero.

The latest target of fraud is the country's most populous state, Mexico, which contains part of Mexico City. Though the P.R.D. leader Cuauhtémoc Cárdenas carried the state by a 2-to-1 margin in the last federal elections, and though recent opinion polls had signaled a P.R.D. victory, the PRI incredibly claims to have swept all 34 legislative districts and 117 of 121 municipalities. The opposition, however, has provided documentary evidence of wholesale padding of registration rolls, while party stalwarts went from precinct to precinct to cast multiple ballots.

Popular protests against electoral fraud are repressed. Police and paramilitary groups have killed more than 60 P.R.D. sympathizers since the beginning of 1990. In March, police opened fire on protest marchers in the resorts of Acapulco and Zihuatanejo, killing six. In April, Mr. Salinas sent tanks into Michoacán to retake town halls occupied by protesters.

In Mexico, they still steal votes.

Mr. Salinas's electoral reform bill, rubber-stamped by the PRI-dominated Congress, increases the share of PRI-controlled seats on the Federal Electoral Council, keeps the Interior Minister as council chairman and effectively insures the PRI an absolute majority of seats in Congress regardless of its percentage of the vote.

To preclude opposition alliances like those that have triumphed in Chile and Nicaragua, the law bars joint candidacies. It forbids opposition parties to publicize vote totals that differ from the electoral council's, and criminalizes peaceful protests against the official determinations of the electoral authorities.

The Salinas administration's hostility to democratic process extends to control of the news media. The Government denies the major opposition parties access to state television channels, even though it is legally mandated, while the PRI-oriented owner of the "private" Televisa consortium bars them from the remaining channels. The state controls most of the print media through subsidies, bribes and paid (though unidentified) insertions of Government-supplied "news." Last year, the administration orchestrated a hostile takeover of the daily Uno Más Uno, one of the few that has dared to publish news unfavorable to the ruling party.

The party tightly controls labor unions. Labor leaders are imposed, not elected, which corrupts them into serving as state agents. Grass-roots challenges to such control are met with an iron fist. In July, workers at the Mexican Steel Tube plant in Veracruz went on strike to insist on their right to elect union leaders responsive to the needs of the rank and file. In response, Gov. Dante Delgado, a Salinas appointee, unleashed the state security police.

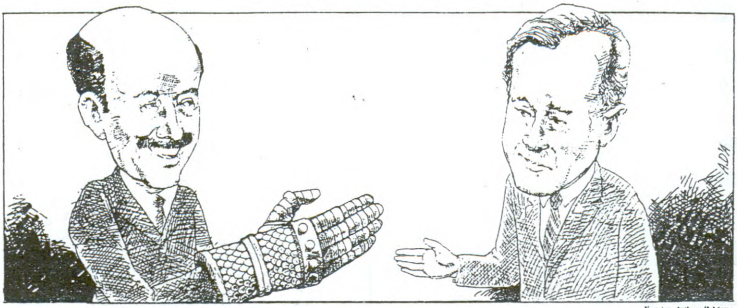
In view of Mexico's slide toward political unrest, the Bush Administration and Congress should insist on international observation of future elections in order to encourage them to come into conformity with international standards. □

Andrew Reding directs the Mexico project of the World Policy Institute, a public policy organization.

VIEWPOINTS

Bush Can Embrace Mexico — But Lightly

He's right to seek open trade, wrong to slough off rights violations by the regime.



Newsday / Anthony D'Adamo

By Andrew Reding

PRESIDENT GEORGE BUSH's enthusiastic embrace of Mexican president Carlos Salinas in Monterrey in late November, coming on the heels of massive electoral fraud in Mexico's most populous state, raises disturbing questions that will only grow in importance as he accelerates negotiations for a free trade agreement. Bush, who once pursued ties with Manuel Noriega and Ferdinand Marcos, is now betting on yet another foreign leader with a demonstrated aversion to democratic process. In so doing, he may inadvertently compromise his objective of integrating Mexico into the North American market.

The impulse toward economic integration is itself sound. As Europe and East Asia coalesce into powerful economic blocs, it is in the mutual interest of the United States and its neighbors to forge a comparable economic union in the Americas. Superficially, Bush's proposal for hemispheric free trade arrangement is a step in that direction.

Yet if the president continues to overlook the political conditions for successful economic integration, it could turn into a serious misstep. An economic union encompassing incompatible political systems — stable democracies and unpopular authoritarian regimes — is a recipe for disaster. Wisely, the Europeans have limited European Community membership to democracies.

Though he earlier insisted that the "will of the people" be respected in Panama, where U.S. interests are primarily strategic rather than economic, Bush, by contrast, has turned a blind eye to repeated instances of electoral fraud in Mexico. Official tally sheets from the 55 percent of precincts in which poll watchers were present in the last federal election showed opposition leader Cuauhtemoc Cardenas in the lead; returns from the remaining precincts were never disclosed. Instead, the ruling Institutional Revolutionary Party (PRI) relied on its automatic majority on the federal electoral commission to install Salinas in the presidency. With his own legitimacy in question; Salinas has since presided over well-documented frauds in the states of Michoacan, Guerrero, Oaxaca, Sinaloa, Hidalgo and most recently in the state of Mexico.

Salinas has responded to public protest with methods reminiscent of Panama's former strongman Manuel Noriega. All legal challenges by the opposition have been declared out of order. Police and paramilitary groups have attacked protesters, killing several dozen so far this year. Federal police have kidnaped an opposition congressman, imprisoned an opposition mayor, and threatened the son of opposition leader Cardenas at knife point. In March, half a dozen marchers were shot to death by police in the resorts of Acapulco and Zihuatanejo. In May, Salinas ordered tanks into Michoacan to retake town halls occupied by irate townspeople.

'Placing economic liberalization ahead of democratization leads down a perilous path.'

Such official lawlessness bodes ill for Mexican stability, and hence for the long-term viability of the economy. Yet the Bush administration continues to fixate on short-term opportunities. Delighted with the speed with which Salinas is privatizing the Mexican economy, the administration is, not unreasonably, concerned that a democratic opening would modify the character and pace of reform.

Placing economic liberalization ahead of democratization, however, leads down a potentially perilous path. It is widely believed in Mexico that Salinas intends to privatize both the country's state-owned oil industry and its *ejidos*, peasant agricultural cooperatives established by the Mexican Revolution. Yet these measures would be highly unpopular, and the ruling party lacks the two-thirds majority of Congress needed to amend the constitution. The only prospect of doing this is through an even more massive and sophisticated fraud in next August's federal congressional elections.

Such ends-justify-the-means logic may well achieve immediate objectives, only to jeopardize ultimate aims as the steam in the Mexican pressure cooker builds to uncontainable levels. Unpopular economic measures adopted by a fraudulently elected government will lack legitimacy and could easily be reversed. Lack of popular accountability will continue to promote corruption that saps genuine economic development and sustains drug trafficking. Finally, social unrest will hinder or even paralyze economic activity.

Worse yet, in the context of an economic and political rapprochement between the United States and Mexico, such eventualities would have serious spillover effects north of the Rio Grande. In addition to economic disruptions, we could expect increased migration and growing resentment of U.S. support for what is, de facto, dictatorial rule.

So it's is time for Washington to follow the European lead and condition the proposed free trade agreement on observation of the upcoming Mexican federal elections by the United Nations and the Organization of American States. Though democracy will undoubtedly complicate economic integration, it will set it on a firmer footing. Besides, we need to be mindful of the damage being done by double standards. If we can call for democracy in Panama and Nicaragua, why not next door?

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México: persiste la corrupción

Por Andrew Reding

El presidente de México, Carlos Salinas de Gortari es un visitante asiduo de Estados Unidos. En esta intensa campaña de relaciones públicas expresa que está democratizando a México y eliminando la corrupción. Sin embargo, tras dos años de abultada retórica, es hora de hacer algunas duras preguntas sobre la persistencia de la corrupción y el autoritarismo dentro del propio partido oficialista y la Administración del Presidente.

El último artilugio del presidente Salinas tuvo lugar en el congreso de este mes del Partido Revolucinario Institucional (PRI). Ostensiblemente, el congreso del partido debía formalizar el cometido del PRI de "incrementar la democracia en la selección de líderes y candidatos de partido." Presumiblemente, tal compromiso se pondría de manifiesto en elecciones libres de líderes del partido. En vez, el presidente del PRI, Luis Donaldo Colosio, protegido del presidente Salinas, fue reelegido sin oposición. Para alejar cualquier desafío concebible, se requirió que los potenciales rivales obtuvieran el apoyo de seis senadores, treinta delegados del congreso y cinco jefes del partido estatal, una imposibilidad práctica dentro de la estructura autoritaria del PRI. Sin que nadie se sorprenda, los 31 jefes de partido estatal se alinearon detrás de la opción del presidente Salinas. Luego, para asegurar la presencia de delegados de partido para el recuento formal, el PRI pagó a cada uno 35 dólares (además de gastos) por presentarse. Dentro del partido oficialista de México, cuanto más cambian las cosas más igual quedan.

La corrupción oficial sigue igual. A pesar de la difícil situación de México, se desvían vastas sumas de dinero público a fines partidistas. En Baja California, donde el Partido de Acción Nacional de centroderecha ganó elecciones en todo el estado el año pasado, la nueva Administración descubrió transferencias clandestinas de dos millones y medio de fondos del Gobierno a cuentas bancarias personales de la senadora federal Margarita Ortega, su secretaria, y el líder del partido estatal Milton Castellanos. En el momento de las transferencias, la senadora Ortega se postulaba para gobernadora como candidata escogida del presidente Salinas; Castellanos se postulaba para alcalde de Mexicali, puesto que ganó por un margen tan delgado como una hoja de afeitar.

Aunque el PRI trata de desestimar las revelaciones indicando que es una venganza partidista, los hechos hablan de otra forma. El procurador estatal Eduardo Kraus, que hizo las revelaciones, es miembro del PRI y sus cargos están documentados por registros bancarios. Sin embargo, los tribunales federales, que en México no son más que un brazo de la rama ejecutiva, han intervenido para bloquear esfuerzos estatales de acusar a los funcionarios de Gobierno que hicieron los pagos y cuestionar a los que los recibieron.

Tal impunidad se extiende a otras formas de corrupción. Anteriormente, este año, un sobrino del secretario de Marina

> *Dentro del partido oficialista de México, cuanto más cambian las cosas más igual quedan*

Mauricio Schleske reveló que Schleske no había reportado propiedad de dos casas de 350,000 dólares en Houston. Como esas sumas están muy por encima de los salarios de los almirantes mexicanos, sugieren posible colusión con narcotraficantes, posibilidad subrayada por la subsecuente venta de una de las propiedades a una empresa de las Islas Vírgenes Británicas que sólo registra una casilla de correo como dirección. Cualquiera sea la fuente de la repentina buena fortuna del almirante, la ley mexicana impone fuertes multas y sentencias de prisión para los funcionarios de Gobierno que no revelan la totalidad de sus bienes. Sin embargo, a Schleske, designado de Salinas, se le ha permitido renunciar silenciosamente bajo la cobertura de atender asuntos "familiares."

Mientras se encubre la corrupción en las altas esferas, los que buscan desafiarla mediante procesos democráticos son severamente castigados. El pasado mes de diciembre, los vecinos de Aguililla, Michoacán, eligieron un alcalde reformista cometido a aliviar la dependencia del pueblo del cultivo de narcóticos. Salomón Mendoza, un granjero de papaya y melón, propuso reemplazar los campos de marihuana y amapola con huertos y cultivos de melón. A juzgar por la guerra retórica contra las drogas librada en la ciudad de México y Washington, podríamos haber supuesto que tal iniciativa atraería apoyo nacional e internacional.

Pero el alcalde Mendoza es miembro del principal partido de oposición de México, el Partido de Revolución Democrática (PRD). El hecho que llegara aun a asumir el puesto testimonia su arrasante victoria por margen de cuatro contra uno, ventaja que imposibilitó al Gobierno hacer fraude electoral. Desde entonces, sin embargo, el Gobierno ha sometido al alcalde y su pueblo a sistemática persecución. Como está documentado en un reciente reporte de Americas Watch, la Policía Judicial Federal ha allanado y saqueado docenas de hogares sin órdenes de cateo, violado mujeres y detenido personas de todas las edades, incluso niños. El pasado mes de mayo, cuando el alcalde Mendoza fue a la Policía a protestar por los abusos, él mismo quedó detenido y llevado a una base del ejército. Tres agentes federales lo torturaron para que firmara una confesión preparada, mientras otros agentes allanaban su casa para poner narcóticos.

Días después que el congresista federal Leonel Godoy protestara ante el procurador general mexicano, él también se convirtió en víctima. Esa noche, agentes de civil detuvieron su auto blandiendo metralletas, lo amenazaron con matarlo y le robaron los archivos del caso. Como en instancias similares de intimidación política, no han habido acusaciones, renuncias ni despidos de agentes federales y agentes responsables de los abusos.

A pesar de las protestas de grupos internacionales de derechos humanos y del obispo católico local, el alcalde Mendoza sigue en prisión. Mientras tanto, las únicas personas que aparentemente no han sido tocadas por la Policía en Aguililla son los barones de la droga.

Mientras el Congreso inicia audiencias sobre un acuerdo de libre comercio con México, es hora de hacer algunas ásperas preguntas al presidente Salinas. ¿Por qué se encubre la corrupción de los miembros del Gabinete, senadores y altos funcionarios del partido? ¿Por qué se obstaculiza o persigue a los genuinos reformadores del partido? Sobre todo, ha de hacerse entender a Salinas que la corrupción socava la reforma económica y diluye el apoyo público a un Gobierno que ya sufre de débil mandato electoral. Hemos de hacerle saber que aunque no tenemos intención de entrometernos en los asuntos mexicanos, tampoco es en nuestro interés nacional un casamiento económico con un socio incompatible.

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La contrarreforma salinista

Por Andrew Reding

Desde una respectiva internacional, la nueva ley electoral que aprobó la Cámara de Diputados el 14 de julio no satisface las condiciones mínimas para la democracia. De no haber un cambio radical antes de su aprobación por el Senado, confirmaría, esta vez de manera definitiva, la imposibilidad de autorreforma del partido dominante, y la falta de voluntad del presidente Carlos Salinas para cumplir con sus promesas de "política moderna" y de "transparencia electoral."

En todo el hemisferio, se considera como la condición fundamental para tener elecciones libres e imparciales, la existencia de un poder electoral independiente —independiente de gobierno e independiente de cualquier partido, sobre todo el partido en el poder. Por eso, la constitución venezolana precisa en el artículo 113 que los cuerpos electorales tienen que ser compuestos de tal manera que ningún partido a grupo puede predominar. En los Estados Unidos, el partido en el gobierno y la oposición siempre tienen un número de representantes igual en la comisión federal electoral.

Costa Rica, el país latinoamericano que más se ha distinguido por la limpieza de sus procesos electorales, va más allá. Su constitución establece que el Tribunal Supremo de Elecciones tiene "el rango e independencia de los Poderes del Estado" (artículo 9). Para garantizar su imparcialidad, sus tres magistrados son nombrados por la Corte Suprema de Justicia, y no pueden tener filiación partidaria. Lo hicieron así los costarricenses para evitar que se repitiera el fraude de 1948 que llevó a la guerra civil.

Nicaragua, que también ha querido resolver divisiones internas por la vía cívica, se inspiró de los ejemplos costarricenses y venezolanos. Su Constitución de 1987 es la primera que reconoce explícitamente al Consejo Supremo Electoral como el "cuarto poder" de gobierno. Para asegurar el equilibrio en el poder electoral, dos de los cinco magistrados son escogidos de ternas propuestas por la oposición, y uno más debe ser un individuo neutral que goza de prestigio a nivel nacional. Tan moderno y transparente es el sistema electoral inaugurado por los sandinistas, que les quitó del Ejecutivo en las elecciones del 25 de febrero.

Es a esa democracia sin calificaciones, que lleva consigo el riesgo de perder, que parece temer el presidente Salinas y su partido. Ya lo vimos en las elecciones del 6 de julio de 1988, con la "caída" oportuna del sistema de divulgación del cómputo y desde entonces en la negativa de divulgar los resultados del 45% de las casillas en donde la oposición no obtuvo copias de las actas de escrutinio. Esa negativa en medio de una crisis de legitimidad no tiene sentido si no fuera para ocultar la elección de Cuauhtémoc Cárdenas como Presidente de la República. De manera semejante, la negativa del Presidente y de su partido a crear autoridades electorales que no sean dominados por priístas sugiere que todavía temen perder elecciones limpias. Lo interesante es que eso desmiente el discurso (a decir nada de las "encuestas") triunfalistas del Gobierno. Si fuera cierta, no habría razón alguna para evitar a cualquier costo la verdadera modernización política.

Esa falta de confianza se manifiesta además en el artículo 58, del nuevo código electoral que prohíbe el registro de candidaturas comunes. En una clara contramedida al éxito del Frente Democrático Nacional en las últimas elecciones federales, el PRI trata de imposibilitar una futura alianza antigobiernista al estilo chileno o nicaragüense.

> *La nueva ley electoral del 14 de julio no satisface las condiciones mínimas para la democracia*

Como si no fueran suficientes esas medidas antidemocráticas, el partido dominante insiste en la preservación de la cláusula de "gobernabilidad." México se queda así solito en el hemisferio con ese rasgo del autoritarismo. Lejos de entrar a la política moderna que exige compartir el poder legislativo con la oposición, Salinas optó por ampliar la mayoría artificial del partido dominante, resguardando su modelo que ya hace poco dejó Paraguay. Y vale notar que los países con los sistemas políticos más modernos y estables en el mundo —los países europeos, Estados Unidos, Canadá, Costa Rica, para citar algunos— son precisamente los menos "gobernables" según el criterio priísta. Hay que buscar el verdadero propósito, entonces, en las palabras escondidas: evidentemente, se está hablando de la gobernabilidad como sinónimo de mantener a un determinado partido en el poder, aun a espaldas de la voluntad popular.

Tal autoritarismo trae necesariamente la represión. Si el Gobierno no va a permitir los derechos electorales, tampoco tolerará el derecho a la protesta. Lo vimos hace poco en la militarización de las elecciones michoacanas, culminando con el envío de tanques para aplastar a las protestas cívicas en contra del fraude. Ahora lo vemos plenamente anticipado en el nuevo código electoral. Advierte que se puede quitar el registro a cualquier partido cuyos militantes no se abstengan de recurrir "a cualquier acto que tenga por objeto o resultado alterar el orden público... o impedir el funcionamiento regular de los órganos de Gobierno" (artículo 38). Es a decir, se está criminalizando a la protesta en contra del fraude.

Todo eso está haciendo un daño fuerte en la imagen de México en el exterior, sobre todo en el contexto del proceso de democratización que se da a nivel mundial. Es así que se debe entender la denuncia hecha por la O.E.A. al Gobierno mexicano por su falta de respeto por los derechos electorales consignados en la Convención Americana de Derechos Humanos (que firmó el Gobierno mexicano sin reservas). ¿Cómo se tomará en serio a un cuerpo electoral presidido por el secretario de Gobernación, cuyo titular es además un ex policía con fama de mano dura? (Es equivalente a si los sandinistas hubieran nombrado a Tomás Borge como presidente del Consejo Supremo Electoral). Además, con los fraudes que se cometieron el año pasado en Michoacán y Guerrero, y el fraude en Uruapan hace un mes, apenas empieza el escrutinio desde el exterior. Si se pueden dar elecciones limpias en Nicaragua, Chile, Polonia, Argentina, Alemania Oriental, y la Unión Soviética, y si sus gobiernos reconocen sus propias derrotas. ¿Cómo vamos a ignorar la falta de respeto por la voluntad del pueblo mexicano?

A fin de cuentas, el presidente Salinas y su partido se están dañando a sí mismos. Cuando las promesas modernizadoras del Presidente caen en el olvido, alentan al cinismo dentro de México, y lo ponen en ridículo afuera. Con una ley tan desequilibrada, tan violatorio de los derechos ciudadanos, el partido gobernante no puede ganar. Nadie creerá en sus supuestos triunfos: solamente podrá convencer perdiendo. En cambio, ¿no le convendría mejor arriesgar una pérdida ahora para no perder todo después? Los sandinistas lo hicieron a tiempo, y se mantienen como una alternativa viable para la próxima elección. Sin un cambio modernizador parecido, dentro de poco podremos exhibir otra pieza en el museo de dinosaurios priístas que no pudieron ajustarse al nuevo ambiente: *Salinosaurus rex*. Carnívoro (de mano dura), reconocido por sus actuaciones espectaculares, pero sin futuro.

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MEXICO: THE CRUMBLING OF THE "PERFECT DICTATORSHIP"

Andrew Reding

ADVANCE PAGES

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The November 1990 meetings between Presidents George Bush and Carlos Salinas de Gortari in Monterrey reflected the web of contradictions that enmesh U.S.-Mexican relations today. Only a week earlier, Mexico's long-ruling Institutional Revolutionary Party (PRI) had announced an implausible clean sweep of all 34 legislative districts in the state of Mexico, where only two years before opposition leader Cuauhtémoc Cárdenas had beaten Salinas in a two-to-one landslide.

The elections in the state of Mexico had been the first test of the Salinas administration's much-vaunted electoral reform legislation,[1] and even ordinarily sympathetic foreign observers quickly concluded that Salinas had flunked. According to the *New York Times*, "the huge pluralities, 90 percent in many cases, suggest[ed] systematic electoral fraud."[2] Across the Atlantic, the *Economist* argued that "Mr. Salinas cannot separate political from economic reform. If he is truly trying to do both at once, he would do well to encourage international supervision of the elections that he says are no longer fraudulent."[3]

Curiously, President Bush, who had earlier insisted on free elections in Nicaragua and had used the fraudulent 1989 Panamanian elections as a justification for invasion, kept his silence on Mexico's electoral fraud. Moreover, he chose that critical moment to reemphasize his close ties with President Salinas and to reward the Mexican government with a $5.6 billion loan guaranteed by the Export-Import Bank. Bush also used the Monterrey summit to restate his proposal for a hemispheric free-trade zone, beginning with a free-trade agreement with Salinas's Mexico that would serve as both the model and gateway for Latin American economic integration with the United States.

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A free-trade agreement would be the international equivalent of an engagement, with the possibility of a common-market marriage down the road. And Bush is in a hurry. He has asked Congress for "fast-track" approval, which would rule out attaching any amendments intended to condition an agreement on adherence by both parties to international standards for free elections and human rights. Though the "fast track" is intended to prevent negotiations from falling prey to special interest groups, the issues of democracy and human rights are of *general*, not special, interest; and there are strong reasons why they should be taken more seriously in the present context. With the collapse of communist and other authoritarian systems from Mongolia to Chile, Mexico's one-party rule is increasingly seen both at home and abroad as anachronistic and indefensible. Twice last year, Mexico was subjected to unprecedented international criticism of its electoral practices by the Inter-American Human Rights Commission of the Organization of American States (OAS).[4] This did not deter Bush from meeting with Salinas in, of all places, the state of Nuevo León, which the OAS commission had specifically criticized the previous month for its electoral abuses.[5]

Mexicans and foreigners alike are increasingly viewing Mexico's *presidencialismo* as a de facto form of dictatorship. Although the Mexican constitution provides for a U.S.-style separation of powers, the country's political culture has long centered on an absolutist presidency. Mexican presidents select and remove senators, Supreme Court justices, and governors at will through staged elections, rubber-stamp ratifications, and letters of "resignation." Presidents designate their successors by *dedazo* ("tap of the finger"), and the PRI is itself little more than a projection of presidential power. Strictly speaking, Mexican presidents are "rulers having absolute authority and supreme jurisdiction over the government of a state," as the dictionary defines a dictator.

A few years ago, such a characterization would have been unthinkable to most Mexicans. The president, not unlike the Aztec emperors whose virtues are extolled to every grade-school student, was seen as the embodiment of Mexican nationhood and a bulwark against foreign domination. Moreover, the working classes saw the president as a powerful mediator capable of checking the avarice of the rich through land reform and legislation that protected labor rights.

This view of the president has changed dramatically in recent years as Mexico's neoliberal presidents—Miguel de la Madrid Hurtado (1982–1988) and Carlos Salinas—abandoned the country's traditional independent foreign policy and aligned themselves instead with Ronald Reagan and George

Bush, declared an end to land reform, and pursued economic policies that reduced real wages by 60 percent over the past decade. When Mexicans struck back at the polls in the July 1988 presidential elections, the government resorted to wholesale fraud to maintain its grip on the presidency and subsequently on state and local offices. Recurrent fraud has in turn fueled a growing demand for genuine democracy among Mexicans.

The depth of that demand was apparent in the popular reaction last August to an extraordinary breach of media security that seriously embarrassed the regime. On August 30, poet Octavio Paz invited like-minded neoliberal intellectuals to participate in a forum on the demise of communism and triumph of democratic, free-market systems, which was shown live on Televisa, the nominally private but exclusively *priísta* (dominated by the PRI) television channel. To Paz's consternation, Peruvian novelist Mario Vargas Llosa, whose own neoliberal credentials are beyond reproach, instead chose to focus on Salinas's Mexico, describing it as the "perfect dictatorship":

> The perfect dictatorship is not communism, not the Soviet Union, not Cuba, but Mexico, because it is a camouflaged dictatorship. It may not seem to be a dictatorship, but has all the characteristics of dictatorship: the perpetuation, not of one person, but of an irremovable party, a party that allows sufficient space for criticism, provided such criticism serves to maintain the appearance of a democratic party, but which suppresses by all means, including the worst, whatever criticism may threaten its perpetuation in power.[6]

Vargas Llosa broke off his visit to Mexico the following day, citing an "unexpected family matter" and leaving behind a phrase—"perfect dictatorship"—that has since become a cliché in Mexico.

The very popularity of that phrase, however, is itself a clear sign that the "perfect dictatorship" is no longer so perfect. (For when the dictatorship was in fact perfect, almost no one perceived it as a dictatorship.) That the critical analysis of a foreigner should be so enthusiastically endorsed by nationalistic Mexicans suggests the extent to which a new political culture is emerging in Mexico. Large and growing segments of civil society as well as of Mexico's two largest opposition parties—the Party of the Democratic Revolution (PRD) and the National Action Party (PAN)—support this new political culture.

Formed in the crucible of resistance to electoral fraud and repression, this new political culture is centered on respect for democracy and human rights, and thus has a vision radically different from the ruling neoliberal vision. These two visions are in conflict today, and the future of Mexico's

political system is at stake in their struggle. In order to avoid misreading Mexican reality, we need to understand both the nature of that conflict and the ways in which the issue of Mexican democracy affects U.S.-Mexican relations.

The Limits of Institutional Reform

That Salinas should find himself criticized by even some of his fellow neoliberals is a measure of the contradictions in his program. Liberals—whatever their stripe—are supposed to uphold all individual freedoms, be they economic or political. Yet while boldly opening Mexico's economy, Salinas has just as decisively limited political rights.

This is not a comfortable dichotomy, and there is reason to believe Salinas originally intended a different outcome. During the 1988 presidential campaign, he complained that the PRI had in the past been "scraped by the electoral lance" (an elliptical allusion to fraud), thereby denying its candidates "unobjectionable triumphs." To avoid a recurrence, his transition team prepared a U.S.-style computerized vote tabulation system to provide instantaneous returns over national television.

Unfortunately, the experiment in "transparency" backfired. When early returns on election night showed Cárdenas in the lead, the system went dead. Results were instead tabulated the old-fashioned way. After a week's delay in which Cárdenas ballots were found floating down rivers and smoldering in roadside bonfires, the Federal Electoral Commission released the official results: Salinas had won slightly more than 50 percent of the vote. But the commission would not disclose details, and to this day the precinct tallies remain a state secret.

By so nakedly imposing a fraudulent transition, the outgoing and incoming presidents greatly diminished the prestige of the presidency. The "perfect dictatorship" became less perfect, its authoritarian features all too visible. Cárdenas's refusal to play by the old rules, whereby he might have recognized a Salinas presidency in exchange for more favorable treatment of his coalition in the Senate and at the state and local levels, closed the circle. It effectively split the institution of the presidency, leaving Salinas with the power but Cárdenas with most of its charismatic mantle. By insisting on constitutional propriety, Cárdenas directly challenged the absolutist presidency, the foundation of the regime. The very name of Cárdenas's new party—the Party of the Democratic Revolution (PRD), which refers to the "democratic revolution" initiated with the July 1988 federal elections—underscored that challenge.

The PRD's call for a revolutionary change in the way Mexico is governed has, in effect, transformed every election in which it participates into a referendum on authoritarian rule. Not coincidentally, the government has barred the country's largest opposition party from gaining control of any state government and has had to resort to massive fraud to prevent it from securing electoral victories in such PRD strongholds as Michoacán, Guerrero, and the state of Mexico. Conversely, Salinas's only notable concession to democracy was his recognition of the July 1989 election of Ernesto Ruffo—a member of the PAN who does not challenge the president's legitimacy—as governor of Baja California Norte.

Until recently, Salinas's apologists could argue that electoral fraud was the work either of overzealous but misguided subordinates, or of entrenched state and local party bosses trying to protect their power bases and sabotage reform. The Salinas administration's overhaul of Mexico's electoral legislation, however, has now revealed the true colors of the regime's self-described reformers. Last April, the PRI-dominated Congress amended the constitution, preparing the way for the new Federal Code of Electoral Procedures and Institutions, which was enacted in August. Far from demonstrating a commitment to democratic change, the new legislation reflects a pervasive distrust of democracy, a continuing obsession with the trauma of 1988, and a determination to reconstruct the damaged foundations of *presidencialismo*.

With the changes, Mexico continues to have one of the hemisphere's most antidemocratic electoral systems. Although the discredited Federal Electoral Commission has been renamed the General Council of the Federal Electoral Institute, the president and his party still designate an automatic majority of its members. What's more, the council continues to be chaired by the secretary of government. This position, equivalent to minister of the interior in other countries, is currently held by Fernando Gutiérrez Barrios, who directed the Federal Security Directorate during the 1968 massacre of hundreds of unarmed students in Mexico City's Tlatelolco Square. Cuba is the only other Latin nation that maintains such a tight grip on the electoral apparatus.

In marked contrast with other Latin nations, Mexico still retains its week-long delay in announcing election results.[7] As dramatized by the 1988 presidential election, that waiting period has traditionally been used to alter unfavorable tallies. The government argues that such a delay is warranted because of the enormous size of the country and its many remote communities. Yet Brazil and Peru, which arguably have more difficult ter-

rain and more primitive communications, have produced overnight results, as did Nicaragua in its February 1990 elections.

Mexico has also preserved its "governability clause," which epitomizes the concept of "perfect dictatorship." Under Article 54 of the constitution, the 500 seats in the Chamber of Deputies (the lower house, which is equivalent to the U.S. House of Representatives) are divided into two groups. Three hundred deputies are elected from single-member congressional districts, as in the United States. The remaining 200 seats are divided among representatives of the various political parties in proportion to their share of the national vote. This assures representation of all parties that receive at least 1.5 percent of the vote.

To prevent such pluralism from interfering with presidential authority, however, the constitution also stipulates that the party that wins a plurality of the 300 district seats and at least 35 percent of the vote has an automatic right to an "absolute majority" of the 500 seats in the chamber.[8] This arrangement provides a semblance of pluralism while denying it in substance. By safeguarding one-party rule, the governability clause (or "security lock," as it is known) also undermines the constitutional principle of separation of powers. The only other Latin American country to have had such a lock on the legislature was Paraguay under Gen. Alfredo Stroessner. When the dictator-president was overthrown a few years ago, Paraguay's governability clause was likewise removed.

Some of the other so-called electoral reforms have also served to tighten the PRI's grip on the government and electoral apparatus. Not only does the new law strengthen the governability clause, but it also prevents a recurrence of Cárdenas's 1988 electoral alliance by prohibiting any party from "nominating the candidate of another party." To forestall public protests against fraud, such as marches and occupations of town halls, Article 38 forbids "any act whose intention or result is to disturb public order . . . or impede the regular functioning of government institutions," and subjects violators to stiff fines.

The Salinas administration portrays its "electoral reform" to foreign leaders and journalists as an enlightened piece of legislation that furthers the cause of democracy in Mexico. In a recent interview in *New Perspectives Quarterly*, Salinas spoke glowingly of the new legislation. He explained, for example, that under the new code, a "General Council of the Federal Electoral Institute was created that includes six politically independent 'counsellor-magistrates' which the president nominates, but which must be approved by two-thirds of the Congress," as well as "a new independent Federal Electoral Tribunal," whose members "are also proposed

by the president and must be approved by two-thirds of the Congress." Salinas stressed that "since no single party has two-thirds of the congressional seats, the different parties have to get together either to approve, or reject, the members of the General Council and the Tribunal."[9]

Salinas's remarks are a fascinating example of the subtle camouflage used to dress de facto dictatorship in the garments of constitutional democracy. As amended, the constitution indeed states that the six counsellor-magistrates of the council and five magistrates of the tribunal must be approved by a two-thirds vote of the Chamber of Deputies. But it goes on to say that if they are not elected on the first ballot, they are to be chosen by lottery from the list of nominees submitted by the president—an important caveat that Salinas conveniently neglects to mention. Regardless of what happens, the president prevails, so that the counsellor-magistrates and magistrates are in effect presidential appointees.

In place of reform, Salinas offers these and other sleights of hand. Were he serious about establishing a "transparent" electoral system in Mexico, he would not need to look far afield for models. In Costa Rica, the three magistrates of the Supreme Electoral Tribunal are appointed by the Supreme Court. In Nicaragua, the Supreme Electoral Council is a fourth branch of government. Two of its five magistrates are drawn from the party in office; another two from opposition parties; and the fifth must be a prominent citizen known to be independent of all parties. The problem with such systems is that they work, as demonstrated by the outcome of last year's presidential election in Nicaragua. That makes them appealing to the opposition but unthinkable to the Mexican government.

The Modernization of Fraud

Blocking the electoral advance of the PRD has required a vast expansion of the scale and means of fraud. Nowhere is this more obvious than in Michoacán, the home state of Cárdenas. The state favored Cárdenas over Salinas by a three-to-one margin in 1988, and both of its senators and 12 of its 13 federal deputies belong to the PRD. If Mexico were a genuine democracy, the state would be written off to the PRD, at least for the time being. But the logic of dictatorship is different.

Cárdenas, while sticking scrupulously to the letter of the law, has broken all the unwritten rules that form the foundation of Mexico's authoritarian system. The PRD has pledged to enact reforms that will dismantle the ruling party's control over the police, the press, television, labor unions, agrarian reform communities, and elections should it gain control over

the state. The example could be contagious, in the same sense that the Lithuanian declaration of independence precipitated similar declarations from other Soviet republics. Since such a precedent must be avoided at all costs, the PRI has been unrelenting in its efforts to keep the PRD from expanding its base in Michoacán.

In the July 1989 elections for the state congress, the PRD was able to document that it had won 14 of 18 legislative districts. Yet the PRI-dominated state electoral commission, using clumsily altered tally sheets, granted 12 districts to the PRI.[10] Had the popular will been respected, the PRD would have been able not only to pass laws, but also amend Michoacán's constitution. The next crisis came in December 1989, with elections in the state's 113 municipalities. This time the PRD was able to document clear wins in at least 59 municipalities, including the capital and almost all the larger towns. Yet the state electoral commission again altered the results, nullifying the PRD win in Uruapan, the state's second largest city, and splitting the remaining towns with the opposition. Since municipalities have limited constitutional authority, less was at stake, and the PRI could afford to be more generous. What it could not concede was the loss of a majority of municipalities to the opposition.

That created a new crisis in June 1990 with the special election in Uruapan. A loss here would leave the PRI one municipality short of a majority, thus crossing a dangerous psychological threshold. Yet the traditional means of fraud had proved inadequate on the first try. To prevail in such hostile territory (the PRI first lost Uruapan in 1968), the government perfected a new form of fraud. First, it conducted door-to-door public opinion surveys in conjunction with a new electoral census. Then, by manipulating the town's computerized electoral records, it was able to reshape the electorate, adding thousands of PRI voters to the rolls and subtracting thousands of opposition voters. Where the PRI had lost in December, it emerged with a two-to-one victory over the PRD in June.

The Council for Democracy, a nonpartisan organization, investigated the Uruapan case in detail. In a report written by Jorge Barrera Graf, winner of the 1990 jurisprudence award of the Mexican Bar Association, it exposed the new modalities of fraud. The report found that the government had adulterated the electoral registry by striking out 18,000 legitimate voters and inserting the names of 14,500 real and fictitious persons, none of whom was eligible to vote. Thousands of voter identification cards either vanished without a trace or were never delivered to their rightful owners. Thousands more were improperly diverted into the hands of PRI sympathizers. To ensure smooth execution of the plan, the government had supplemented

these new methods of fraud with its tried and true ones, according to the council report. Polling officials in 64 of the city's 100 precincts were replaced with PRI stalwarts; ballot boxes were located in the homes of government and PRI functionaries; and thousands of PRD and PAN voters were turned away from the polls when they tried to exercise their civic duty. The fact that the government ignored all formal appeals, the report concluded, reflects its determination to "prevent, by whatever means, a free and fair election in Mexico."[11]

In retrospect, Uruapan was a laboratory for the perfection of more modern and efficient methods of fraud. In November, the PRI would have to face elections in the state of Mexico, where Cárdenas had won by an overwhelming margin in 1988, and where control of a state legislature was again in the balance. The government did not want to risk repeating the embarrassment of Michoacán, in which it lost on election day only to have to clumsily alter the results later. If it could not change voters' minds, and changing their ballots was too messy, perhaps it could change who gets to vote in the first place. And what better choice for a trial run than a community in the heart of Michoacán?

The cybernetic fraud that worked so well in Uruapan was applied to the November elections in the state of Mexico, and the results were comparable. Where the opposition was able to obtain copies of the computerized electoral registration data, it discovered the same telltale patterns. In the city of Naucalpan, for instance, the PRD exposed some 8,000 duplicated and even triplicated names.[12] Statewide, the ruling party really outdid itself, "winning" all 34 legislative districts and 117 of 121 municipalities by margins as high as 20-to-1[13] in a state where an independent polling organization had found 42 percent support for the PRD, 38 percent for the PRI, and 17 percent for the PAN.[14] Embarrassed by its success, the government ended up conceding two additional municipalities to the opposition. In its haste, however, it conceded Apaxco, one of the few towns where the PRD had *not* run any candidates, to the PRD.[15]

Having successfully expanded its experiment from the municipal to the state level, the government is now prepared to apply it at the national level. In August, elections are to be held to replace the entire Chamber of Deputies and half the federal Senate. By all objective criteria, the PRI should be in serious difficulty. The party is widely despised; its opposition is better organized than ever before; and, in contrast to the United States, there is no advantage to incumbency in Mexico since the constitution prohibits reelection to consecutive terms. In the brave new world of cybernetic fraud, however, it is the opposition that has everything to lose.

The PRI is now positioned to seal its victory well before August. Barring any serious attempt to have international observers monitor the elections, Salinas can reasonably expect to recover a two-thirds majority of Congress.

The president who promised to "modernize Mexican politics" has, in a peculiar twist, instead modernized Mexican fraud. Rather than ushering in the future, computers are being programmed to buttress the foundations of the old order, with new and more insidious results. Mexicans have never been allowed to effect a peaceful, democratic change of government; now, following a brief period of hope in 1988, more and more of them are staying away from the ballot box.

Anatomy of an Unreformable System

Although President Salinas has clearly been the chief architect of Mexico's antidemocratic electoral reform and expanded electoral fraud, he is not solely responsible. None of Salinas's neoliberal cabinet members or advisers, from whom the PRI's 1994 presidential candidate is almost certain to be chosen, has murmured any disagreement. Moreover, Salinas's record sets him firmly in the tradition of his predecessors.

Presidents Luis Echeverría, José López Portillo, and Miguel de la Madrid each imposed electoral reforms of their own so as to maximize the appearance of a multiparty parliamentary system while preserving the PRI's stranglehold on the government and the electoral apparatus. Part of the genius of the "perfect dictatorship" is that the absolutist presidency rotates every six years, allowing each newly "elected" chief executive to present himself as a reformer. The pretense wears thin after several years in office, but most foreign observers, and, until recently, most Mexicans have been willing to give each newcomer the benefit of the doubt.

There has been no meaningful electoral reform precisely because the real system of rule in Mexico has nothing to do with elections. Serious, as opposed to make-believe, elections would disrupt the interlocking system of social controls that form the backbone of the absolutist presidency. These include the police, the army (which in Mexico behaves like an internal police force), and the corporatist organizations through which the presidency maintains a tight rein on urban and rural labor. All are answerable to no one but the president and his intermediaries. Since a break in any one of the chains of arbitrary executive rule endangers them all, the political system is inherently unreformable.

Formed as an extension of presidential power, the PRI has evolved over the years to serve two main purposes: to provide an electoral front for a

revolving-door dictatorship and to facilitate the corporatist control of society. To achieve these aims, the party is divided into three branches. One branch encompasses labor unions, a second incorporates peasant organizations, and the third oversees state employees. Presidential authority is exerted down the branches through a system of national, regional, and local bosses known as *charros* ("cowboys," who round up urban laborers) and *caciques* ("chieftains," who round up Indian peasants).

The epitome of the *charro* is Fidel Velásquez, the nonagenarian who has ruled the Mexican Workers' Confederation (CTM) with an iron fist for half a century. It is he and others like him who have kept the lid on the Mexican labor movement as real wages have fallen 60 percent. Such services are not, of course, provided for free; they have traditionally been rewarded with senatorships, governorships, pork-barrel contracts, and impunity for corruption and even murder.

As elsewhere in the system of *presidencialismo*, pro forma elections in labor unions and rural organizations have served the need to dress authoritarian rule in democratic clothing. Although such elections were seldom free or democratic, the system worked reasonably well, with only occasional outbursts of discontent, as long as the president, the *charros*, and the *caciques* appeared to be powerful mediators defending the interests of the working classes and as long as real wages continued to rise. With the recent deterioration in real wages, and the emergence after 1988 of a viable political opposition to the PRI, all this has changed. Workers are now demanding democratically elected leaders.

Here again, however, there is no room for genuine reform. For the same reason that the PRD cannot be allowed to gain control of a single state government, no labor union can be permitted to elect a genuinely independent leadership. Should any union succeed in escaping state control, it could become a powerful example that could jeopardize the entire political order. Dictatorships are less resilient than democracies in this respect; resting on power rather than the consent of the governed, they must be ever vigilant lest any gap in their armor suggest vulnerability. In order to maintain complete control over an increasingly restive labor movement, the Salinas administration has greatly stepped up its assault on labor rights.

Mexican workers now face conditions reminiscent of those in the United States at the height of the robber baron era as they are squeezed from all sides by the coordinated actions of management, government, and labor bosses. The government's response to the February 1990 wildcat strike by 5,200 workers at the Modelo Brewery typifies the vicious three-pronged assault on labor in Mexico today. Modelo was of strategic importance to

the government for two reasons: because it produces Corona beer, one of Mexico's most successful exports to the United States; and because workers had rebelled against the CTM for failing to represent their interests.

In addition to grievances over declines in real wages and over undemocratic leadership, Modelo employees were upset about working conditions. Workers suffer lung damage because grain dust is not properly ventilated, and they must endure temperatures that can range from below freezing to 140 degrees Fahrenheit in the brewery. In effect, the government's export strategy relies not only on depressed wages, but also on poor working conditions that chisel away at the health and life expectancy of Mexican workers. The authorities have resisted enforcing international health and safety standards, believing that to do so would undermine Mexico's "comparative advantage" in cheap labor.

Lifting a page from George Orwell, the Ministry of Labor declared the Modelo strike "nonexistent," enabling the brewery to fire the workers and abrogate the union contract. In March, Fidel Velásquez organized a new union, which was immediately certified by the secretary of labor. When the fired workers appealed the decision, the courts upheld the ruling of the Ministry of Labor.[16]

Rural Mexico is at least as restive as urban Mexico, and the government is fearful of the inroads the opposition is making in the countryside. Most major social upheavals in Mexican history have originated in the rural heartland, and it is among the peasantry of densely populated central and southern Mexico that the PRD is building its strongest grass-roots base. Peasant antipathy to the government is so strong that the traditional corporatist system is no longer containing dissent in much of the region. In such a context, genuine democratic reform of the corporatist system would only accelerate the PRI's loss of control over rural Mexico.

To hold on to power, the government has had to shore up rural corporatism through fascist-style tactics. Peasant Torch, a shadowy paramilitary organization that has already murdered scores of opponents of the regime,[17] has become the government's weapon of choice against independent peasant organizations and the PRD. Recently Peasant Torch has focused its attacks on rural municipalities won by the PRD, often seizing town halls in an effort to disrupt opposition governments. In April 1990, the federal government organized a march of 50,000 *antorchistas*, who paraded through Mexico City with placards denouncing the PRD just three days before the government used army tanks to retake town halls occupied by citizens protesting electoral fraud in the state of Michoacán. Last Sep-

tember, Peasant Torch was seated in the PRI's National Assembly for the first time.

Mexico's judicial system helps to buttress the official lawlessness essential to the operation of the corporatist system. The country's constitution provides for a separation of powers and for observances of virtually the entire spectrum of human rights. But those nominally charged with enforcing the law—the police, prosecutors, and courts (to say nothing of the army, which is prohibited by the constitution from engaging in domestic police actions)—in reality preserve an order distinct from the law. Allowing them to break the law with impunity gives them a personal stake in the system, and thus ensures their loyalty to the presidential—not the constitutional—order.

Just as impunity is the lifeblood of *presidencialismo*, it is the scourge of Mexican society. It allows the police to break into homes and detain citizens without warrants, in flagrant violation of Article 16 of the constitution, and sanctions the generalized practice of torture, in violation of Articles 19 and 20 of the constitution. A June 1990 report by Americas Watch described torture as "endemic" in Mexico, "practiced by most if not all branches of the federal and state police, as well as by the armed forces."[18]

Impunity also gives the police, *charros*, *caciques*, and other enforcers of the existing order a license for murder. *Charros* form goon squads to assassinate rivals or to terrorize rebellious union locals who seek enforcement of constitutionally mandated labor rights. *Caciques* hire death squads to sow terror in rural communities clamoring for enforcement of land reform laws. But the most frightening force of all is the Federal Judicial Police (PJF), Mexico's equivalent of the Federal Bureau of Investigation. Although under the jurisdiction of the attorney general, the PJF is, by any objective definition, a secret police force. Its agents, or *madrinas* ("godmothers") as they are known, operate with the full armament and authority of the security forces as they carry out bloody, shocking operations that can seldom be traced back to the government.[19] The assassination last May of Norma Corona, president of the Independent Committee for the Defense of Human Rights in Sinaloa, was such a case.

Less than a month after Corona was gunned down by three men in a blue Chevrolet Cheyenne without license plates (a telltale sign of the secret police),[20] Salinas announced with much fanfare the formation of a National Human Rights Commission (CNDH) charged with "confronting new threats to human rights, from whatever source."[21] It was clear from its inception, however, that the commission was window dressing for domestic and

foreign consumption and would function as little more than just another corporatist arm of the absolutist presidency. The commission was set up inside the notorious Ministry of the Interior; barred from investigating violations of political or labor rights;[22] and granted only a subordinate, advisory role. As legal scholars Jorge Barrera Graf and Samuel del Villar have pointed out, the CNDH is not an independent, constitutional agency. Mexico, they argue, is still in need of "a genuine ombudsman, serving not a hierarchical superior, but society."[23] International human rights organizations remain equally unimpressed; Amnesty International warned two congressional subcommittees last fall that "Mexico today is a human rights emergency."[24]

President Salinas's judicial reform bill, which was announced last fall, is a further illustration of the limits of institutional reform in Mexico. Like his earlier electoral "reform," his judicial "reform" is a masterpiece of dissimulation. A key element of the proposed law is a requirement that confessions be made before representatives of the public ministry (that is, the attorney general's office), rather than the police, and that a lawyer be present.[25] Although on first reading this may seem like a considerable improvement, it would in fact further concentrate power in the hands of the executive. At present, the constitution requires that all detainees be immediately placed before a judge, who is the person responsible for hearing confessions in the presence of counsel. Rather than bring practice into conformity with the constitution, the proposed change would do the reverse, transferring judicial power to the prosecutor and placing the accused in the hands of the accuser.

Internal efforts at rooting out corruption are similarly doomed from the outset by the very nature of the system of governance. The Mexican model of authoritarianism and single-party rule is relatively nonideological; power and money are the real rewards for serving in the government. But the logic of the "perfect dictatorship" requires the maintenance of modest salaries. Police supplement their inadequate incomes with bribes extorted from helpless citizens and with payments from drug traffickers, while presidents acquire lavish residences and personal fortunes that bear no conceivable relationship to their nominal salaries. Under such circumstances, any effort at reform must necessarily be halfhearted and even in the best of cases confined to selected scapegoats.

The government periodically launches much-publicized campaigns against corruption, but they are a sham. While the government appoints well-respected Mexicans like Samuel del Villar and Miguel Sarre to head its anti-corruption drives, it thwarts their probes whenever they cut too

close to high-level officials. For example, Sarre resigned as the government-appointed "Attorney for Citizen Protection" in the state of Aguascalientes last fall after Gov. Miguel Barberena stymied his attempts to prosecute senior officials of the State Judiciary Police who had been routinely engaging in illegal arrest and torture.[26]

The Sarre example highlights the extraordinary cynicism of the Mexican leadership. Political reform does not work in Mexico because it is not intended to work. Corruption is a necessary off-the-books wage for extralegal enforcement of presidential authority. Torture is indispensable to the maintenance of a healthy respect for arbitrary rule, as confirmed by its near-universal use in authoritarian regimes. The simulation of reform in Mexico performs two vital functions. First, it serves as political cover for the sitting administration. Second, where necessary, it also provides convenient opportunities to imprison political adversaries or to expose corruption in a previous administration, thereby reinforcing the myth of the regime's perennial renewal.

Recent world events have given the Mexican leadership little reason to believe that an authoritarian ruler or party can survive a transition to democracy. With uncharacteristic candor, Salinas recently confided to *Newsweek* that "some countries are attempting [economic and political] reforms at the same time, and they end up with no reform at all, and even graver problems."[27] Democracy, Salinas told *Newsweek*, would have to await the success of his economic policies: "In some countries it has been demonstrated that because economic change has failed, the long-awaited hour of democratic change hasn't materialized. . . . [We will] respond to the call of Mexicans for improved well-being. It's a matter of the two reforms going at different rhythms, but the priority is economics."[28]

Like Porfirio Díaz, the dictator-president who tried to modernize Mexico's economy at the beginning of the century, Salinas seems to have concluded that Mexico is not ready for democracy. "I keep hearing that in Mexico one party has held power for [70] years," Salinas told *Newsweek*, "but when I think of how one party has ruled long in countries like Japan or Italy [sic], I pay less attention to the criticism."[29]

In fact, Salinas is not brooking criticism from any quarter. In his address to the PRI party congress last September, he charged that "those of the opposition who insult the party here at home and have no shame in criticizing the PRI and the government abroad" have in effect become "allies of those who seek to subvert our national sovereignty."[30] Louis XIV may have said it more succinctly, but the message is the same: I am the state; dissent is treason.

The Distortion of Economic Reform

Salinas's distinction between economic and political reform is an artificial and, in Mexico's case, an incorrect one. Without legal and electoral accountability, the corrosive effects of unchecked official greed and ambition pervade society, as elections are rigged and as contracts and justice are bought with political favors and bribes. No aspect of a nation's political, economic, or social life is immune, least of all a market economy.

The genius of the market is that it rewards productivity by ensuring that the competitive playing field is kept relatively open and level. That requires evenhanded enforcement of well-defined ground rules designed to limit the concentration of economic power. This is an all but impossible objective in an unaccountable system where political power is itself so extremely concentrated. To suggest, as Salinas does, that economic reform can outpace political reform is to ignore this reality.

In fact, many of Mexico's chronic economic problems are intimately related to its long-standing tradition of authoritarian rule. However different the Aztec *tlatoani* were from the Spanish viceroys and post-independence dictator-presidents who succeeded them, they were all authoritarians who repeatedly thwarted efforts at fundamental social change. Although the liberal upheaval of the 1860s and the revolution of 1910 gave birth to magnificent democratic constitutions, Mexico's presidentially dominated "liberal" and "revolutionary" parties have, with few exceptions, repeatedly undermined Mexico's constitution.

This helps explain why Mexico retains a premodern social structure with one of the world's most unequal distributions of wealth and income. Ethnic Spaniards continue to dominate the country's political and economic life, neglecting rural Mexico, which is overwhelmingly made up of Spanish-speaking native Americans. This social structure has fostered a plantation mentality (whose modern expression is the *maquiladora*, or low-wage assembly plant) that seeks a comparative advantage in foreign trade by repressing the labor force rather than by investing in education and new technologies in order to raise productivity and create internal markets for sustained economic growth.

The repressive political structure necessary to sustain such an archaic social structure has caused a serious misallocation of resources in Mexico. Absent political reform, Mexico's neoliberal economic reforms are being distorted by the social environment; instead of relieving some of the country's underlying economic problems, they are exacerbating them. This is apparent, for example, in Mexico's attempts to resolve the country's debt

crisis. To keep Mexico attractive to foreign investment, the de la Madrid and Salinas administrations have made a priority of maintaining payments of interest on the $100 billion foreign debt. Because Mexico is not a democracy, there has been little incentive to spread the burden of payment equitably throughout the population. Denied both an effective presence in parliament and a free labor movement, a majority of Mexicans have systematically been denied any influence in the formulation and negotiation of economic policies. For that reason, interest payments on the foreign debt have in effect been made through a 60 percent reduction in the real wages of Mexican workers and a comparable reduction in agricultural prices.

In fact, Mexico's wealthy elite, who have a disproportionate amount of influence over the country's political system because of their disproportionate share of the wealth, have actually profited from the crisis. The elite have virtual veto power over government actions, for they can always threaten to transfer more of their assets abroad. For that reason, the de la Madrid and Salinas administrations have until recently deliberately maintained domestic interest rates at levels well above the high rates of inflation that were eroding wages. This policy staved off further capital flight and even caused some funds to return to Mexico. But these funds have not gone into capital investment.

Given the opportunity to invest in safe, high-yielding, government bonds, Mexico's rich have had little incentive to invest in new plant and equipment. Moreover, the high rates of interest on those bonds have caused the country's domestic debt to expand at exponential rates, to the point where more than three-quarters of the government's combined domestic and foreign interest payments in 1989 were for domestic debt. Thus, in the absence of political reform, economic reform has widened social disparities by redistributing income from the lower classes who have no real political clout to the upper classes who do.

The economically destabilizing effects of Mexico's political system extend to the valuation of the peso. Since Mexico's rate of inflation is much higher than the U.S. rate, it stands to reason that the peso should be losing value proportionally against the dollar. Yet a rapidly devaluating peso would make investing in peso-denominated government bonds far less attractive for the wealthy and would invite renewed capital flight. It would also invite the wrath of the country's middle class, whose standard of living is presently being sustained in large measure through artificially cheap imports. With the regime's legitimacy already in question, and its de facto alliance with

any form of technical assistance and do not even possess a single tractor. Two in five lack access to credit for seed and fertilizer. Even if they could overcome such limitations, the *ejidos* would have great difficulty marketing their produce, because the government has not provided paved access to three-quarters of them; one in six lacks even a dirt road.[34]

The reasons behind the low productivity of Mexican agriculture are no mystery. The government has not sought to invest in the countryside because the peasantry, despite its considerable size (one-quarter of Mexico's population is engaged in agriculture), has been locked out of any real power and routinely repressed by the rural network of *caciques*. These conditions have forced Mexican peasants off the land. They migrate to urban squatter belts and to the United States in search of survival, which fuels unemployment, reinforces the downward pressure on wages, and contributes to urban chaos.

The absence of genuine political reform hurts the economy in other ways as well, undermining the very goals of liberal economic reform. Single-party rule leads to misallocations of resources as public funds are redirected to partisan ends. Repression diverts resources away from needed capital investment and fosters a climate of instability that frightens away private investors. State revenues are eaten up by the corruption essential to the maintenance of the regime's system of social controls. For example, Labor Secretary Arsenio Farell, who enforces the government's repressive policies toward labor, has been permitted to form bogus fishing cooperatives, which he has used to siphon federal loans into personal accounts.[35] Much has been made of the amount that previous populist administrations spent on Mexico's social welfare programs. Yet it pales in comparison with the massive amount of public funds that is diverted today from the public coffers to pay for PRI propaganda and electioneering or that is embezzled outright.

Corruption also stunts economic modernization by facilitating illegal, high-return enterprises that divert resources from economic development. By far the most important of these is drug trafficking. Lured by large sums of money and virtual impunity, many of the country's top military and police commanders have forged lucrative ties with the international drug mafia.[36]

With the government so thoroughly corrupted, state-owned enterprises become easy targets of mismanagement. Pemex (Petroleos Mexicanos, the state-owned oil monopoly) is the most prominent example. Half of its revenues go into the federal treasury, from whence a substantial amount is diverted to personal and partisan ends. Less than 1 percent of Pemex's

after-tax revenues are recycled into capital investment.[37] It should be no surprise, then, that the petroleum company's plant is obsolete and deteriorating and its efficiency abysmally low. Moreover, Pemex's work force is bloated with patronage jobs, and it continues to reward labor bosses with sweetheart contracts. The transportation and communications sectors of the economy, which like energy are vital for economic development, have been similarly mismanaged.

Absent political reform, wholesale privatization is the only conceivable remedy. Yet even privatization is vulnerable to the vices of old-style Mexican politics, including cronyism, abuse of presidential authority, and the corporatist repression of labor. Missing from the government's privatization efforts is any sort of open competitive bidding process that would help ensure that the public is getting its money's worth. Without such accountability, there is reason for concern that the state may be undervaluing its holdings in sweetheart sales to favored investors.

Telephones of Mexico (Telmex) is a case in point, all the more so because it has become Salinas's model for privatization.[38] Last fall, 51 percent of the controlling shares in the company were sold to a group of Mexican investors led by Carlos Slim, Salinas's favorite businessman. Privatization in Mexico has meant basically transferring enterprises from the country's political elite to its economic elite instead of seeking to decentralize ownership. The opposition, on the other hand, advocates creation of a broader base of ownership by including small investors, cooperatives, and labor unions in divestiture plans.

The absence of democracy not only distorts economic reform, but also erodes its base of popular support. If the majority has no say in the implementation of the reform program, and if the program creates distortions that benefit the rich minority at the expense of the poor majority, there will undoubtedly be strong opposition to economic reform. If Mexico's economic reforms are to result in a more efficient, productive, and equitable economy that is attractive to foreign and domestic investors alike, the country will need to have a fundamentally different political strategy—one based on broad consultation and negotiation to ensure that a majority of Mexicans have a meaningful stake in economic reform and will remain committed to it over the long haul.

The Emergence of a Democratic Political Culture

In his November interview with *Newsweek*, President Salinas justified his party's continued hold on power by arguing that a "big problem right

now is the weakness of the opposition—the weakness of their programs, their organizational weakness. That makes the process of political transformation very difficult."[39] This refrain served the ruling party well in the past when the PRI was the only political game in town. Until recently, none of Mexico's opposition parties had enough of a following to be credible alternatives to the PRI; instead, their existence fortified absolutist rule by providing it with a democratic face. So "perfect" was the dictatorship that would-be reformers either had to try to change the system from within or be marginalized.

The presidential election of 1988 changed this equation drastically and irreversibly. Although the PRI "won" the presidency, its fraud could not conceal the fact that a majority of Mexicans had voted for the opposition. Just as significant, Cárdenas's refusal to recognize the legitimacy of a fraudulently elected government set a new moral standard. At last, Mexicans believed they had found a leader who would not betray the popular will in exchange for Senate seats, ambassadorships, and checks drawn on the federal treasury. Henceforth, the "perfect dictatorship" would be confronted with an authentically democratic alternative.

There are now two political games in Mexico City, and, behind them, two radically incompatible political cultures contending for the future of Mexican politics. Today the culture of *presidencialismo* appears more naked than at any time since the ill-fated reign of Porfirio Díaz. The emerging democratic culture rejects the absolutist presidency outright, insisting on a true separation of powers, independent electoral authorities, a genuine multiparty system, and strict enforcement of internationally recognized standards of human rights. These are not, of course, new ideas. They have been in gestation for some time among would-be reformers and human rights activists. What is new is their incorporation into a broad-based political movement.

The government's resort to massive fraud to exclude Cárdenas from the presidency was the watershed event that spawned Mexico's democratic awakening. This and subsequent fraud at the state and municipal level have turned the country into a giant school of democracy in which citizens have been learning through firsthand experience how large a stake they have in a system of free elections. Similarly, Salinas's continued use of Congress to rubber-stamp unpopular legislation and of the courts to crush independent labor movements has given large numbers of Mexicans an appreciation of the importance of the constitutional principle of separation of powers. Finally, Salinas's repression of the democratic movement

has contributed to a rapidly expanding demand for enforcement of internationally recognized human rights.

Reformers who just four years ago were isolated voices at the periphery of Mexican politics are now at the center of the emerging democratic mass culture. The true reformers are leaving the PRI, dismayed at their failed efforts to reform the party from within. While Cárdenas is the best-known example, there are numerous other examples of prominent and lesser-known Mexicans who have deserted the PRI. Samuel del Villar, who resigned as coordinator of de la Madrid's Moral Renovation program, has become a leading member of the PRD. Rodolfo González Guevara, the former speaker of the Chamber of Deputies who led the Critical Current (the most recent effort to reform the PRI from within), joined the PRD in February.

Although the PRD, formed in 1989, is the most prominent institutional expression of Mexico's new political culture, it is by no means the only one. A segment of the PAN, including such prominent leaders as Jesús González Schmal of Mexico City and Gabriel Jiménez Remus of Guadalajara, founded the Doctrinal and Democratic Forum in early 1990 to pursue a democratic agenda similar to that of the PRD. Another important development has been the creation of new civic organizations dedicated to the promotion of democracy and human rights. Among these is Mexico's first fully independent, nondenominational, and national human rights organization, the Mexican Commission for the Defense and Promotion of Human Rights. Dozens of other human rights groups, both secular and church-based, have been springing up throughout the country. These groups are informing Mexicans of their rights, publicizing violations of those rights, and providing documentation to international human rights organizations, such as Amnesty International and Human Rights Watch.

A number of organizations seeking free and fair elections have also been established, among them the Democratic Assembly for Effective Suffrage, founded in 1987, and the Council for Democracy, founded in early 1990. Together with ad hoc groups like the Independent Citizens' Tribunal, they have documented and publicized electoral fraud in successive state elections. They are now beginning to explore vehicles for monitoring elections and measuring public opinion, including parallel vote tabulation networks, international observation teams, and public opinion polls.

The effectiveness of Mexico's democratic movement can be gauged by its success in bringing the issues of democracy and human rights to domestic and international attention. Salinas has felt compelled to respond with electoral and judicial "reforms" intended to repair the damage to the

regime's image. But Mexico's new civic guardians have exposed Salinas's counterfeit reforms for what they are. Salinas may continue to hold power, but nothing short of genuine democracy can now restore respect for the presidency.

Beyond resisting authoritarian rule, protagonists of the new political culture are beginning to develop democratic alternatives that are rooted in Mexican traditions and responsive to the particular needs of the Mexican people. Denied any possibility of influence in Mexico City, the opposition is concentrating its efforts at the state and municipal levels, where it aims to revive Mexican federalism. As elsewhere, it has the law on its side. The United Mexican States, as Mexico is officially known, is formally a U.S.-style federation with a separation of powers enabling each of Mexico's 31 states to pass its own laws and govern its internal affairs independently of Mexico City. In practice, however, the unwritten rules of *presidencialismo* prevail. The president designates and removes governors at will; PRI-controlled state legislatures produce carbon copies of every important presidential initiative; and governors exercise arbitrary authority over local governments.

Where the opposition has been able to gain control of local government, small portions of the country have begun to get a taste of the self-governing federalist system envisioned in the constitution. Unable to stop fraud at the state and federal levels, PRD members have responded to local fraud by occupying their own town halls, inaugurating legitimately elected municipal presidents and councils, and setting up parallel governments. Salinas and his state governors have tried to snuff out these civic revolts with troops, tanks, and police, killing dozens. Yet the locals are persistent. As soon as the police or troops leave, residents retake the town hall. As of last November, the government had been forced to concede 118 municipalities to the PRD, and the attrition continues.

From the grass roots, Mexicans are beginning to define – and extend – the constitutional concept of free municipalities. Where PRI mayors once held sway over their towns, PRD mayors now convene town meetings to involve the citizenry in decision making. For the first time in Mexican history, municipal presidents are meeting with leaders of other municipalities to collaborate on issues of common concern, breaking the vertical pattern of dominance from state capitals.[40] The grass-roots character of the PRD was apparent in last November's First National Congress, a lively, raucous event interrupted by shouts and motions from the floor that forced a free-for-all election for the 96 open positions on the party's National Council. The top vote-getter was not a PRD stalwart from Mexico City, but Andrés

portions of the middle class-based PAN at stake, it can ill afford to stick to its free-market prescriptions.

Instead, the Salinas administration has been devaluating the peso at a tightly controlled snail's pace of about 3 percent per year. (Inflation last year in Mexico was 30 percent, compared with about 5 percent in the United States.) The overvalued peso may have bought some domestic peace for the time being, but it has dramatically hurt Mexico's foreign trade accounts. The net result of keeping the peso overvalued while at the same time "liberalizing" the economy by lifting tariff barriers for imports has been to flood the country with imports and to make exports less competitive. This helps explain why the 1987 trade surplus of $8.4 billion shrank to $1.7 billion in 1988 and became a $640 million deficit in 1989 and a $3 billion deficit in 1990;[31] so much for the Salinas administration's goal of export-driven growth.

The combination of liberalized import policies and an overvalued peso has hit hardest in Mexico's already depressed countryside. The artificially cheap dollar has helped push the food import bill from $3 billion in 1988 to $4.1 billion in 1989 and more than $5 billion in 1990.[32] (Last year, after tortuous negotiations, Mexico secured $1.6 billion in debt relief—a figure equal to about one-third of its food import bill for the year.) Cheap imports have undercut domestic producers, whose costs exceed the price they can obtain for their commodities.

This outcome is no accident. Secretary of Commerce Jaime Serra Puche has timed the relaxation of import duties to coincide with domestic harvests in order to force agricultural prices downward as a means of controlling inflation in the cities. He has been so zealous in this objective that the government has imported Chernobyl-irradiated powdered milk from Europe and aflatoxin-contaminated corn from the United States.[33] The net effect has been to buy time in the cities, where the government is more vulnerable to social unrest, at the cost of the further deterioration of Mexican agriculture.

Rural Mexico is the prime victim of the government's economic policies precisely because it is the sector of Mexican society that is most completely locked out of the political system and most brutally repressed. No other country of Mexico's size has managed to build a successful modern economy without a strong rural base. Yet Mexico has pursued policies that have severely eroded the productivity of the countryside, as well as the quality of life for rural inhabitants. Thus, after a half century of "reform," a majority of *ejidos* (agrarian reform communities) lack drinkable water, and one-third lack electricity. Most are situated on marginal land, yet are denied

Manuel López Obrador, who is spearheading the grass-roots movement in Tabasco.[41]

There are limits, however, to what these piecemeal efforts to democratize the country can accomplish. With its near totalitarian control of the army, police, labor unions, the mass media, and courts, the absolutist presidency remains extremely powerful. Grass-roots organizing will likely bear fruit at the state and national level, but only over the long run. For now, the only way to gain at the state or national level is to make some accommodation with Los Pinos, the Mexican White House. That is why the PAN governs Baja California, while the PRD is barred from a legislative majority in Michoacán.

The costs of accommodation with the regime are increasing, however, as demonstrated by the position the PAN is in today. Since its creation in 1939, the PAN has portrayed itself as Mexico's democratic alternative. Yet it did not foresee the abrupt post-1988 rise of Cárdenas and the PRD, which has relegated it to second place in the opposition lineup. Soon after Manuel Clouthier, the PAN's presidential candidate in the 1988 race, died in a highway accident in October 1989, party president Luis Alvarez began negotiating with Salinas. PAN's end of the bargain can only be surmised, yet it is a matter of public record that on October 17 the PAN provided the two-thirds majority needed to amend the constitution and implement Salinas's manifestly antidemocratic electoral reform bill.

The deal split the PAN; one-third of its congressional delegation voted against the bogus electoral reform and then joined other party dissidents in forming the Doctrinal and Democratic Forum to lobby for reform within their own party. The intraparty conflict between old and new political cultures came to a head in the February 1990 meeting of the National Council of the PAN, in which Luis Alvarez was narrowly reelected as president, defeating Gabriel Jiménez Remus of the reform faction.

The PRD is not immune to such intraparty squabbling. Many of its leaders formerly belonged to the PRI or to small leftist parties that were more likely to accommodate rather than confront the presidency. Despite the sincerity with which most of these leaders have embraced the democratic cause, some of them are clearly uncomfortable with their new role. They recently found a spokesperson in Jorge Alcocer, a brilliant leftist and fixture of the Mexico City intelligentsia. Writing in the monthly *Nexos*, Alcocer criticized the PRD for its refusal to recognize the legitimacy of the regime, charging that the opposition party has a "constant tendency toward fundamentalism."[42] Having lost a run for a seat on the PRD's National Executive

Council in December, Alcocer resigned from the party, accusing Cárdenas of discouraging internal pluralism.

PRD Senator Porfirio Muñoz Ledo's decision last fall to run for governor of Guanajuato has embroiled the party in further controvery. Samuel del Villar, legal affairs coordinator of the PRD, has publicly accused Muñoz Ledo, the PRD's second most prominent leader, of tainting the party by using PRI-style carpetbagging tactics; the senator, who represents Mexico City (his birthplace), has attempted to run for office in a state where he is ineligible, according to current law, to be a candidate. Muñoz Ledo has also shown a willingness to make some accommodation with the Salinas administration. In February he arranged a private meeting with Salinas, the first of its kind by a PRD leader.

Cárdenas has been adamant that, in the Mexican context, accommodationist strategies end up reinforcing absolutist rule, for they require the toleration of unconstitutional practices and enable the regime to restore some of its lost democratic face. The PAN leadership has taken a more compromising approach. It has been willing, for instance, to cosponsor the regime's legislation in exchange for some crumbs of power. Such *pinche transa* ("stinking wheeling and dealing"), however, contributes to widespread cynicism, resentment, and apathy among the country's already frustrated citizens.

Although the grass-roots alternative being pursued by the PRD and other elements of the new democratic culture avoids these vices, it would be a mistake to underestimate the forces arrayed against it. In a system as highly autocratic and centralized as Mexico's, any groups or communities that try to break loose are confronted with a vast assortment of tools of repression: obstruction by the state or federal judiciary; electoral fraud; politically motivated impeachments by state legislatures; politically motivated drug sweeps and trumped-up charges against community leaders; cutoffs of state and federal funds; and direct assaults by police, the military, or paramilitary goons. That is why the protagonists of Mexico's emerging democratic political culture agree that the only viable path to democracy is an explicitly nonviolent "democratic revolution" that dismantles authoritarian institutions beginning with their source in the absolutist presidency.

The key to such a peaceful transformation is international support for democracy. As shown by the recent examples of Chile, Nicaragua, and Haiti, there is no more powerful force for democratic change than electoral observation by impartial, multilateral agencies. Such close international scrutiny makes repression costly and encourages citizens to vote

in unprecedented numbers, for they see that the world will be watching to ensure that their vote will count. For those reasons, the PRD and other elements of Mexico's new democratic culture have requested international observation of Mexican elections.

Time for a New Policy Toward Mexico

Bush's meeting with Salinas in Nuevo León just a couple of weeks after the spectacular fraud in the state of Mexico elections, and a month after the Inter-American Human Rights Commission singled out Mexico for unprecedented criticism, symbolizes his administration's indifference to the issue of democracy in Mexico. Whether such indifference is the product of ignorance or fear, the emergence of a peaceful, broad-based democratic movement in Mexico means that the issue can no longer be ignored. By giving its unqualified blessing to President Salinas, the Bush administration is in effect siding with an authoritarian regime next door at a time when that regime is being questioned by its own people like never before.

There are, nevertheless, hopeful signs that the debate over free trade has begun to awaken at least some congressional voices to the importance of democracy in Mexico. Last fall, Rep. Donald Pease (D-Ohio) sponsored a letter to President Bush that was signed by 36 members of Congress. It expressed concern about a series of items, including Mexico's "authoritarian, undemocratic one-party system"; government domination of the labor movement and the deleterious effect this was having on U.S.-Mexican wage differentials; Mexico's poor environmental record; the drug trade; and immigration.[43]

The emergence of a mass-based nonviolent movement for democracy and human rights in Mexico at a time when a major free-trade agreement is under discussion is fortuitous for both Mexico and the United States. As we have seen, free markets require free societies if they are to function properly. Pluralistic institutions help ensure that economic discipline will be applied more equitably, and that economic growth will translate into development for the whole society. They also help preserve social peace, indispensable to the maintenance of a stable environment for business. Furthermore, independent electoral authorities and a genuine separation of powers are the most reliable means of making leadership accountable, thus helping to ensure that economic reforms are not subverted.

Although the Mexican opposition has barely begun to work out the details of its alternative plan of economic reform, some of the broad out-

lines have begun to take shape. Progressives—notably including the PRD and the Democratic Forum of the PAN—have begun to articulate an economic program that builds on their embrace of political democracy. At the heart of their program is a demand for a genuinely free labor movement. Mexican democrats understand that adequate employment and fair wages are the essential building blocks of a more equitable distribution of income, and that independent, democratic unions are the only way to ensure that wages will fairly reflect the productivity of labor. They also believe that health and safety standards, as well as environmental safeguards, will only be enforced if the rank and file are represented by labor leaders who are genuinely responsive to their needs and who are willing to pressure the government.

The new economic democracy advocated by the Mexican opposition has important implications for the proposed free-trade agreement between the United States, Canada, and Mexico. Ideally, the rationale for free trade is to promote the sort of healthy competition and complementarity that increases the overall productivity of the participants. As with any competition, however, certain uniform standards need to be observed to prevent cheating that undermines the ultimate goal. If Mexico persists in repressing its labor force, violating basic health and safety standards, and ignoring environmental protection standards, it can easily underprice even efficient U.S. industries.

That in turn encourages U.S. manufacturers to move their operations to Mexico so they can "cheat" in the same way. This results in a loss of jobs and income in the United States without a remotely comparable gain in Mexico; the Mexican-based operations are able to produce more cheaply not because they have higher productivity, but because social and environmental costs have not been incorporated into the price. This distorts the free market, rewarding opportunism over genuine gains in productivity.

For these reasons, the struggle for democracy on the part of the average Mexican is very much in the interest of the average citizen of the United States as both nations become more closely integrated. Mexicans are coming to understand that their nonviolent, constitutionalist strategy for political change will—like most such movements elsewhere—undoubtedly require a measure of international support to succeed. They are now asking for a little help from their neighbors: not heavy-handed intervention, to be sure, but friendly collaboration from prospective partners. The PRD, the Democratic Forum, the PAN, and their allies have recently called for international observation of Mexican elections.[44] In a related development,

they have urged the U.S. Congress to reject "fast-track" authorization and condition a free-trade agreement on inclusion of fair-trade provisions.[45]

Congress can act on these requests without risking being accused of intervening in Mexico's domestic affairs, provided it does so in a multilateral framework. The proposed free-trade agreement between the United States, Canada, and Mexico would create a supranational economic entity, removing significant economic barriers. Each state that becomes party to such an agreement necessarily relinquishes part of its sovereignty. No state has the right to intervene in the affairs of another state unilaterally. However, each has the right to condition its entry into any form of union on the acceptance of certain common standards deemed essential to the success of the joint venture.

Congress should assert that right by conditioning free trade on multilateral guarantees of fair-trade practices. A vital element of any trilateral trade agreement between the United States, Canada, and Mexico should be a social and ecological charter that guarantees internationally recognized labor rights for all North Americans and that sets uniform occupational health and safety standards, as well as uniform environmental safeguards. The charter would be enforced by an independent trilateral trade commission, ideally composed of economists, labor representatives, and ecologists from the three countries. The commission, not the courts of any single nation, would be responsible for interpreting and enforcing the trade agreement.

Congress should also condition a free-trade agreement on multilateral observation of Mexican elections, ideally beginning with the August 18 federal elections. There is nothing radical in such a proposal. Both the United Nations and the Organization of American States have already acquired considerable expertise in electoral observation from recent missions to Nicaragua, Haiti, and Chile, to name but a few examples. If it is good public policy to insist on multilateral observation of elections in Nicaragua, is there not all the more reason to do so with Mexico, a next-door neighbor with which the United States seeks economic integration?

There was a time when democracy could coexist side by side with authoritarianism without major spillover effects. In an increasingly interdependent world, where neighboring nations seek to integrate their economies, that time has passed. That is why the European Community, with great foresight, conditioned the entry of Spain, Portugal, and Greece on the removal of authoritarian rule and creation of democratic institutions. The United States would be remiss to do otherwise with its prospective partners.

Notes

[1] Though the elections were run under state rather than federal law, the new state electoral law was, in keeping with Mexico's centrist tradition, a virtual carbon copy of the new federal law.
[2] "The Cloud Over Reform in Mexico," *New York Times*, November 17, 1990, p. 22.
[3] "Dirty sweep," *Economist*, November 17, 1990, pp. 54, 56.
[4] "O.A.S. Cautions Mexicans on Election Fraud," *New York Times*, June 4, 1990, p. A-17.
[5] "Condenó la CIDH la Ley Electoral de Nuevo León," *Proceso*, No. 728 (October 15, 1990), pp. 26–27. In a further embarrassment, Panamanian President Guillermo Endara responded to Mexican efforts to question the legitimacy of his government (sworn into office on a U.S. air base in the course of the invasion) by snapping, "We don't need the legitimation of a government . . . that is the product of pure electoral fraud." *Proceso*, No. 701 (April 9, 1990), pp. 36–37.
[6] *Proceso*, No. 723 (September 10, 1990), p. 53 (author's translation).
[7] Moreover, Article 406 of the penal code sets prison terms of up to five years for any "party functionary who . . . deceitfully divulges false information with respect to official results contained in precinct tally sheets or overall final counts." In the hands of Mexico's far from independent judiciary, this provision could easily be used to prohibit public disclosure of parallel vote counts that differ from official results.
See *Proceso*, No. 720 (August 20, 1990), p. 23.
[8] For this and subsequent references to new constitutional provisions and to the new electoral law, see *Código Federal de Instituciones y Procedimientos Electorales* (Mexico City: Secretaría de Gobernación, September 1990).
[9] *New Perspectives Quarterly*, Vol. 8, No. 1 (Winter 1991), p. 9.
[10] *Integración y veredicto del Tribunal Independiente de Ciudadanos* (Mexico, D.F.: Grupo Parlamentario Independiente, 1989).
[11] *Proceso*, No. 714 (July 9, 1990), p. 29.
[12] *Proceso*, No. 732 (November 12, 1990), p. 16.
[13] "One Result Clear in Mexican State Election: Charges of Widespread Fraud," *New York Times*, November 15, 1990.
[14] Poll conducted by Center for Studies of Public Opinion, Mexico City. See "Una encuesta pronostica el triunfo del PRD," *Proceso*, No. 731 (November 5, 1990), pp. 10, 13.
[15] *Proceso*, No. 733 (November 19, 1990), p. 20.
[16] "Indignación de Juristas; el derecho laboral, convertido en instrumento de represión," *Proceso*, No. 698 (March 19, 1990), pp. 10–15.
[17] *Proceso*, No. 701 (April 9, 1990), p. 8; *Amnesty International Report 1987*, pp. 185–186.
[18] See Americas Watch, *Human Rights in Mexico: A Policy of Impunity* (New York: Human Rights Watch, June 1990), p. 14. See also Amnesty International, "Prepared Statement on Human Rights in Mexico Before the Subcommittee on Western Hemisphere Affairs and the Subcommittee on Human Rights and International Organizations," September 12, 1990, p. 3.
[19] Minnesota Lawyers International Human Rights Committee, *Paper Protection: Human Rights Violations and the Mexican Criminal Justice System* (Minneapolis, MN: July 1990), pp. v–vi.
[20] Americas Watch (fn. 18), pp. 19–22.

[31] "La protección de los derechos humanos encomendada a quienes los violan," *Proceso*, No. 710 (June 11, 1990), p. 20.
[32] Jorge Barrera Graf and Samuel del Villar, *La Comisión Nacional de Derechos Humanos y la indivisión del poder del Estado en México* (Mexico City: Asociación Mexicana para las Naciones Unidas, December 1990), excerpted in *Proceso*, No. 737 (December 17, 1990), p. 17.
[33] *Ibid.*
[34] Amnesty International (fn. 18), pp. 2, 3.
[35] "El Ejecutivo toma el papel de juez a través del Ministerio Público," *Proceso*, No. 730 (October 29, 1990), pp. 15–18. See also Miguel Sarre, "La Defensa en la Averiguación Previa," *Boletín de la Comisión Mexicana de Defensa y Promoción de Derechos Humanos*, No. 1 (November 1990), pp. 2–3.
[36] See "Protección Ciudadana de Aguascalientes, indefensa ante la justicia," *Proceso*, No. 725 (September 24, 1990), pp. 29–31; and *Proceso*, No. 732 (November 12, 1990), pp. 20–21.
[37] "Reform at Two Different Rhythms," *Newsweek*, December 3, 1990, p. 39.
[38] *Ibid.*
[39] *Ibid.*
[40] *Proceso*, No. 723 (September 10, 1990), p. 24.
[41] Christopher Whalen, "Will Mexico Make It?" *Across the Board*, June 1990, p. 36; see also Wires Washington (the Whalen Company), February 13, 1991, p. 6.
[42] "La apertura comercial arruina ya al campo y a la industria," *Proceso*, No. 728 (October 15, 1990), pp. 6–8.
[43] *Ibid.*
[44] "Sin recursos, sin servicios, sin créditos, hasta los ejidatarios abandonan al ejido," *Proceso*, No. 711 (June 18, 1990), pp. 16–17.
[45] "El alcalde, pese a todas las pruebas de corrupción en su contra, sostenido por Farell," *Proceso*, No. 727 (October 8, 1990), pp. 26–29.
[46] See, for example, "Ahora fue Alvarez del Castillo el acusado de narcotraficante," *Proceso*, No. 709 (June 4, 1990), p. 33; *Proceso*, No. 716 (July 23, 1990), pp. 8–11; and *Proceso*, No. 719 (August 13, 1990), pp. 8–13.
[47] Christopher Whalen, "Depleting Asset: Trouble Ahead for Mexico's Oil Monopoly," *Barron's*, October 22, 1990.
[48] See *Proceso*, No. 737 (December 17, 1990), pp. 20–23.
[49] "Reform at Two Different Rhythms" (fn. 27).
[50] "No habrá reelección, determinó el congreso," *La Jornada*, November 21, 1990.
[51] See, for example, "Llama Cárdenas a perredistas a anudar alianzas por la democracia," *La Jornada*, September 10, 1990.
[52] "PRD a la hora del congreso," *Nexos*, No. 155 (November 1990), pp. 53–58.
[53] Letter dated December 14, 1990.
[54] See for instance "Acuerdo Nacional para la Democracia," *Proceso*, No. 745 (February 11, 1991), p. 47; also interview with Cárdenas in *Proceso*, No. 734 (November 26, 1991), p. 21.
[55] See for instance "The Continental Development and Trade Initiative," address by Cuauhtémoc Cárdenas to the Americas Society, New York, February 8, 1991.

STATEMENT OF

REP. JOHN J. LaFALCE, CHAIRMAN
COMMITTEE ON SMALL BUSINESS

Hearing On

U.S.-MEXICO FREE TRADE: THE SMALL BUSINESS PERSPECTIVE

May 20, 1991

The President's proposal to initiate free trade negotiations with Mexico has generated a significant policy debate that will continue long after this week's vote on extension of fast-track authority. Congress will continue to hear appeals from business organizations and coalitions which claim to express the support of American business for a free trade arrangement. But this support is far from complete. Virtually absent in the debate has been any broad or consistent expression of opinion from U.S. small business.

Efforts to characterize the debate over free trade as a battle between business and organized labor ignore some profound differences that exist within American business on this issue. The great majority of the businesses advocating a Mexican trade agreement are large corporations. Many are U. S. firms only to the extent that they are headquartered in the United States. In reality, they are "transnational" corporations whose operations and allegiance transcend national boundaries. These corporations have the ability, and the clear intention, to go anywhere in the world to pursue business opportunities that provide competitive advantage and enhance corporate profits.

In contrast, smaller U.S. businesses are clearly ambivalent on this issue. On the one hand, there is some awareness among small business owners of the potential for marketing products and services abroad and, clearly, the most contiguous places to investigate export opportunities are Canada and Mexico. On the other hand, a broad free trade agreement with Mexico could have a significant adverse impact on the operations of small businesses in at least two key areas.

First, U.S.-based small businesses would confront intensified competition for direct market sales and supplier contracts from low-cost Mexican competitors and from Mexican-based U.S. and foreign producers. Second, the decisions of large corporations to transfer existing operations to Mexico, or to invest in new facilities in Mexico rather than in the U.S., not only threaten existing small business sales and supplier contracts, but eliminate the possibility of future contracts and market opportunities.

This broader, impact of a free trade agreement on small business operations is of particular concern to me. In many respects, small businesses are at the mercy of decisions made by large corporations. The plant that is closed, that is operated at half capacity, or the plant that is not built, all affect the operations and, often, the very existence of numerous small businesses.

Increasingly, U.S. corporations determine that the best way to deal with a troubled plant is merely to close it down. What happens to the small company whose sole purpose has been to service or to supply that plant? These companies cannot relocate to Mexico; many are unable to switch to other contracts or products. Most of these suppliers simply go out of business. This has become an unavoidable fact of life for U.S. small business.

The purpose of today's hearing is to initiate broader discussion of the interests and concerns of small businesses with regard to the proposed free trade agreement with Mexico. The Committee has sought testimony from a variety of small businesses regarding the potential impact of an free trade arrangement on their current operations and potential sales. The Committee has also sought testimony that will begin to identify potential difficulties for smaller businesses in conducting business in Mexico.

Today's witnesses include representatives of small business firms engaged in manufacturing, automotive parts, textiles and oil distribution. These include Alan G. Lewis, President of Gerber Plumbing Fixtures Corporation of Chicago, Illinois; John Higbie, President of AES Interconnects of Avon, Indiana; Mac Cates, CEO of Arkwright Mills, Spartanburg, South Carolina; and David Black, Vice President and General Counsel for Arriba, Ltd., of Houston, Texas.

Additional witnesses, invited at the request of Representative Ireland, the Committee's ranking Republican, include: David Padilla, President of the Manuel Lujan Insurance Company of Santa Fe, New Mexico; Ignacio Urrabazo, Jr., President of the International Bank of Commerce, Laredo, Texas; and Thomas Watson, President of Watson, Rice & Associates, Washington, D.C.

THE HONORABLE DAVE CAMP

STATEMENT BEFORE THE
HOUSE COMMITTEE ON SMALL BUSINESS

U.S. - Mexico Free Trade: The Small Business Perspective

May 20, 1991

Mr. Chairman, as the House of Representatives this week considers a resolution to disapprove extension of the President's "fast track" authority, it is important that we are hearing the perspective of small business leaders, who will be effected by the opportunities and challenges a free trade agreement with Mexico has to offer. I am delighted this hearing is being held today and look forward to listening to the testimony of the witnesses.

Small business is the fastest growing sector of our national economy. Expanded trade abroad will be vitally important as we move towards a global economy, especially, with economists predicting that 75 percent of all new jobs in the United States during the next 25 years will be created by the small business community. A North American Free Trade Agreement with Mexico and Canada offers an historic opening for freer and fairer trade by expanding markets across our entire continent.

Canada and Mexico are our first and third largest trading partners, respectively. The United States currently accounts for over two-thirds of their total trade. In 1990 the three-way trade among our countries came to approximately $237 billion. Since Mexico joined the General Agreement of Tariffs and Trade (GATT) in 1986, U.S. exports have doubled. We need to keep moving in this direction as our own economy grows so the expanding small business community has markets to move into.

A solid trading partnership with Mexico and Canada can boost economic prosperity for all three nations and significant progress can be made on international issues such as drugs and the environment. However, there are concerns of small business, agriculture, and other industries that must be taken into account in a free trade agreement. Understandably, the constituents I represent in Michigan have unique concerns about this trade agreement which has not yet been completed, and I have let the Administration know of them. I also have faith in our Administration's desire to obtain the best deal for American employers, employees, and consumers.

In closing, I would like to thank all of you for taking time out of your day to be with us. Your insights are valuable and appreciated.

RE: TESTIMONY BEFORE THE UNITED STATES HOUSE OF PEPRESENTATIVES SMALL BUSINESS COMMITTEE IN SUPPORT OF THE "FAST TRACK" PROCEDURE EXTENSION FOR A NORTH AMERICAN FREE TRADE AGREEMENT
Washington, D.C.
May 20, 1991

BY: David P. Padilla
Vice President, Manuel Lujan Insurance Agency
President, Manuel Lujan Real Estate Corporation
1300 Luisa Street, Suite 1 (P.O. Box 4995)
Santa Fe, New Mexico 87502
(505) 983-3337

Mr. Chairman, distinguished Members of Congress, my name is David Padilla, from Santa Fe, New Mexico. I am the Vice-President of the Manuel Lujan Insurance Agency and the President of the Manuel Lujan Real Estate Corporation. As a small businessman I serve as a member of a small and minority business advisory committee for international trade (ISAC-14) having been appointed by Secretary of Commerce, Mosbacher and United States Trade Representative, Carla Hills. In New Mexico I serve on the Governor's Border Advisory Committee.

As an insurance and real estate broker, I am in daily contact with small and minority businesses in the State of New Mexico. As you all know, for purposes of international trade, small business is defined as having 500 or less employees. In the State of New Mexico, 95 percent of our businesses fall into that category and represent all sectors of the economy.

The proposed North American Free Trade Agreement especially with Mexico will have a significant impact on small business in the State of New Mexico.

Through my testimony, I would like to present two examples that are specific as to how the FTA will impact upon small businesses within New Mexico.

Small and minority businesses now face the critical challenge of competing in a global economy; they need to seize every advantage in order to survive. Freer trade with Mexico would assist United States small and minority businesses in two significant ways: expand markets for United States products into Mexico, and create job opportunities on both sides of the border.

In a global economy, investment capital will move where the return of the investment will be maximized. Benefits from trade liberalization with Mexico will in the long term far outweigh the short term cost. Maquiladora or twin plant operations have previewed the benefits to both the United States and Mexico. While 450,000 Mexican jobs have been created along the United States/Mexico Border, United States industry has shifted jobs to support the Maquilas. These United States jobs would have been elimated had the United States companies moved off shore in pursuit of lower overhead labor costs. Not only border states' labor force, but also the interior states labor force benefit from the United States/Mexico interchange. For example, the so called "Rust Belt" states, specifically Illinois, have been the lead suppliers of component materials to the Maquiladoras. The number of jobs in the "Rust Belt" states remain secure, however the type of job has shifted from finish production to supply. While the time table for

maximizing the economic benefits for both the United States and Mexico is in the somewhat distant future (Senator Pete Domenici of New Mexico projects a possible 10-15 years), elimination of trade barriers between the United States and Mexico would immediately begin benefiting small and minority businesses in the United States.

As a border state, small and minority business in New Mexico anticipate positive economic benefits from the North American Free Trade Agreement. In addition to our geographical positioning with Mexico, the State of New Mexico continues to maintain deep rooted historical, cultural and commercial ties with Mexico. My testimony today presents two specific examples of small and minority New Mexican businesses that will immediately benefit by a United States - Mexico Free Trade Agreement. Case one is Ponderosa Products, a small, non-minority wood product manufacturer. The second case is Alliance Electronics, Incorporated, a small, minority enterprise. Both of these firms currently export their products to Mexico, Canada, and other Gatt Member countries. These companies demonstrate the private sector interest in relaxing trade barriers with Mexico.

<u>Case One</u>: Ponderosa Products
Albuquerque, New Mexico
Edward Stewart, Owner

Ponderosa Products has approximately 200 employees and manufacturers particle board and fused/Laminated Particle Board. Ponderosa Products exports products to the interior of Mexico, and supplies materials to the Maquiladora in the El Paso/Juarez area. Currently, there is a 5% Tariff on Particle Board and a 20% Tariff on Laminated Particle Board exported to Mexico.

Laminated Particle Board supplied to Maquilas is used to produce value

added cabinets for big screen televisions manufactured by the Zenith Corporation. Ponderosa Products is able to supply higher quality than its Mexican competitors. However, the Tariffs imposed by Mexico eliminates Ponderosa Products from being competitive in the interior Mexican Market. With a level playing field provided by the Free Trade Agreement, Pondersoa Products projects an increase of its exports to Mexico by 15% and the creation of an additional 50 to 75 new jobs for New Mexicans.

Interestingly, Ponderosa Products manufactures Particle Board from sawdust generated from mills throughout the Rocky Mountain Region. The use of by-product sawdust recyles material that otherwise would be dumped in a landfill. Recycling the sawdust creates a positive impact upon the environment and provides the Mills with an additional source of income.

Case Two: Alliance Electronics, Inc.
Albuquerque, New Mexico
G.P. Reyes, General Manager

Alliance Electronics, Inc. manufactures Electronic Components, such as: semi-conductors, diodes, transistors, and computer hardware. Alliance Electronics, Inc. exports products to the interior of Mexico, and supplies materials to the Maquiladoras in the El Paso/Juarez area. Currently, there is a 23% Tariff on all electronic products exported to Mexico.

The materials supplied to Maquilas is used to produce value added automobile harnesses, cameras, video cassette recorders, and television sets manufactured by RCA and Zenith Corporations. Alliance Electronics, Inc. produces a personal computer for Intel Corporation, and is interested in direct marketing of these computers to Mexican businesses. Complicating the 23% Tariff disavantage fc.. Alliance Electronics, Inc.,

Korea and Taiwan have penetrated the Interior Mexican Personal Computer Market with an inferior and $300 less expensive clone to the 386 and 486 Intel Model. Since, Korea and Taiwan are not participants in the proposed Free Trade Agreement with Mexico, both of these countries would be required to continue paying the 23% Mexican Tariff. Combined with Alliance's superior quality and the elimination of the 23% Tariff, Alliance would be cost competitive with the Korean and Taiwan computers. Alliance Electronics, Inc. projects an initial increase of 12% in 386 and 486 Intel computer exports to Mexico as a direct result of the Free Trade Agreement and the creation of 10 to 15 new jobs.

To underscore the support of small business in New Mexico for trade liberalization with Mexico, attached are resolutions from the Board of Directors of the Greater Albuquerque Chamber of Commerce and the International Trade Council of New Mexico, calling for the extention of the "Fast-Track" authority for the North American Free Trade Agreement. On behalf of the small and minority business community in the State of New Mexico, thank you for allowing me to testify in support of extending "Fast Track" procedures for a North American Free Trade Agreement.

RESOLUTION OF THE BOARD OF DIRECTORS OF THE GREATER ALBUQUERQUE CHAMBER OF COMMERCE IN SUPPORT OF EXTENSION OF THE "FAST-TRACK" PROCESS FOR THE UNITED STATES-MEXICO FREE TRADE AGREEMENT

WHEREAS, President George Bush notified Congress of the intention of the United States and Mexico to commence the negotiation of a Free Trade Agreement on September 25, 1990; and

WHEREAS, the President has requested that the United States-Mexico negotiations be authorized to proceed under the "fast-track" procedure authorized under the Omnibus Trade and Competitiveness Act of 1988; and

WHEREAS, the time for negotiating and implementing an agreement is limited by a statutory deadline of June 1, 1991 at which time the authority of the present "fast-track" procedure expires unless the President has requested an extension to June 1, 1993 of the procedure by March 1, 1991 and Congress approves the request by June 1, 1991; and

WHEREAS, the President has requested that Congress approve an extension of his authority under the "fast-track" procedure; and

WHEREAS, the Greater Albuquerque Chamber of Commerce believes that it is of great importance to the United States, the State of New Mexico and the City of Albuquerque for the negotiation of a Free Trade Agreement with Mexico to continue under the "fast-track" procedure; and

WHEREAS, the Greater Albuquerque Chamber of Commerce believes that it is in the best interests of the United States, the State

of New Mexico and the City of Albuquerque that a Free Trade Agreement with Mexico be achieved;

NOW THEREFORE, be it resolved by the Board of Directors of the Greater Albuquerque Chamber of Commerce that a copy of this Resolution be delivered to the New Mexico Congressional Delegation and that the New Mexico Congressional Delegation be requested to vote in favor of extending the President's authority to negotiate the entry of a Free Trade Agreement with Mexico under the "fast-track" procedure until June 1, 1993.

Approved March 20, 1991

International Trade Council of New Mexico
PO Box 25831
Albuquerque, NM 87125-5831

April 8, 1991

RESOLUTION OF THE BOARD OF DIRECTORS OF THE INTERNATIONAL TRADE COUNCIL OF NEW MEXICO IN SUPPORT OF EXTENSION OF THE " FAST-TRACK" PROCESS FOR THE UNITED STATES-MEXICO FREE TRADE AGREEMENT.

WHEREAS, President George Bush notified the Congress of the United States of the intention of the United State and Mexico to commence the negotiation of a Free Trade Agreement on September 25, 1990; and,

WHEREAS, the President has requested that the United States-Mexico negotiations be authorized to proceed under the "fast-track' procedure authorized under the Omnibus Trade and Competitiveness Act of 1988; and,

WHEREAS, the time for negotiating and implementing an agreement is limited by a statutory deadline of June 1, 1991, at which time the authority of the present "fast-track" procedure expires unless the President has requested an extension to June 1, 1993, of the procedure by March 1, 1991; and,

WHEREAS, the President has requested that Congress approve an extension of his authority under the "fast-track" procedure; and,

WHEREAS, the International Trade Council of New Mexico believes that it is of great importance to the United States,and the State of New Mexico for the negotiation of a Free Trade Agreement with Mexico to continue under the "fast-track" procedure; and,

WHEREAS, the International Trade Council of New Mexico believes that it is in the best interest of the United States,and the State of New Mexico that a Free Trade Agreement with Mexico be achieved.

NOW THEREFORE, BE IT RESOULVED, that the Board of Directors of the International Trade Council of New Mexico endorses the negotiation of a Free Trade Agreement with Mexico and urges that such negotiations continue under the "fast-track" procedure; and furthermore, directs that a copy of this Resolution be delivered to the New Mexico Congressional Delegation and that the New Mexico Congressional Delegation be requested to vote in favor of extending the President's authority to negotiate the entry of a Free Trade Agreement with Mexico under the "fast-track" procedure until June 1, 1993.

Roderick A. Waller | Colin Adams

PRESIDENT - Roderick A. Waller

SECRETARY - Colin Adams

TESTIMONY OF
M. L. CATES, JR.
CHIEF EXECUTIVE OFFICER
ARKWRIGHT MILLS

BEFORE THE
HOUSE COMMITTEE ON SMALL BUSINESS

MAY 20, 1991

EXTENSION OF FAST TRACK AUTHORITY
AND THE IMPLICATIONS OF
THE PROPOSED U.S.-MEXICO FREE TRADE AGREEMENT
AND THE URUGUAY ROUND
FOR AMERICAN SMALL BUSINESSES

Thank you Mr. Chairman and members of the committee. My name is Mac Cates, Jr., and I am the Chief Executive Officer of Arkwright Mills in Spartanburg, South Carolina.

My company is 94 years old. You might be interested in the reason I qualify as a small business. Over the last 20 years I have closed two out of three plants due to imports and have gone from providing over 1,000 jobs to employing 300 people. The first plant I closed was the lowest cost, most efficient plant in its market area. In fact, I won a case before the old Tariff Commission, now known as the International Trade Commission -- I won adjustment assistance for my workers and my company. So I know first hand what a unilateral free trade policy can do to a company and to an industry. I know first hand of the need for a level playing field in trade policy.

My company now employs 300 people in one plant with annual sales of approximately $25 million. We sell our fabric to U.S. producers of work gloves and other types of apparel, and I am very concerned about the potential impact of a North American Free Trade Agreement on my company and my industry.

Since 1986, imports of cotton gloves have gone from 15 million dozen to 20 million dozen -- an increase of over 30 percent. Over 57 percent of all woven work gloves are now imported. The fabric that we make is directly competitive with the fabric in these imported gloves which are often unfairly traded.

A Free Trade Agreement with Mexico could cause even more trouble for the work glove industry. Specifically, I am concerned that work glove producers in Mexico will either: 1) purchase fabric from large Far Eastern suppliers rather than from U.S. and Mexican suppliers; or 2) become merely pass-through or transshipment operations where they would re-label products actually manufactured in the Far East.

The U.S. government must make sure that this does not happen and that only U.S. and Mexican firms will benefit from such an Agreement. If we are going to have a Free Trade Agreement, we will need rules of origin which prevent this funny business from going on. We need to protect the U.S. textile and apparel industries from cheating by the Far East.

At the same time, the U.S. government needs to encourage the Mexicans to follow accepted procedures in implementing new trade regulations. Recently, some apparel companies were told that they could not ship their finished apparel to Mexico because new regulations had been implemented. The U.S. companies had not received proper notification; no opportunity had been given for apparel producers to comment on the proposed regulations. That issue is now on the verge of being resolved, but it shows that the U.S. must demand that Mexico play by the same rules as we do. If they want the rights associated with a Free Trade Agreement, they must also take the responsibilities.

I know that you are primarily interested in the effects of a Mexican Free Trade Agreement on small businesses. But you should be aware that the Uruguay Round of trade talks could hurt Mexico as badly as it will the textile industry in this country. It could eliminate whatever beneficial effects there could be for Mexican textiles. The Uruguay Round will do away with the Multifiber Arrangement and the individual quotas that Mexico now enjoys. It will at the same time eliminate quotas that restrain imports from the PRC, India, and Pakistan. The result will be that apparel jobs will be lost by both Mexico and the U.S.A. to these lower-cost producers.

In addition to my duties at Arkwright Mills, I also serve as First Vice President of the American Textile Manufacturers Institute (ATMI), a trade association whose members are engaged in every facet of textile manufacturing and marketing, and collectively account for more than 75 percent of the fiber consumed by the domestic textile mill products industry.

ATMI has just completed a study of the possible effects of the Uruguay Round on our industry. Within ten years, the combination of eliminating quotas and cutting tariffs will seriously cripple if not fatally injure what is today America's largest manufacturing sector.

By way of background, U.S. imports of textile and apparel products during 1990 amounted to more than 12 billion square meters equivalent (sme), triple the amount imported in 1980. This trebling of imports has forced the closing of hundreds of producing facilities in the U.S. and the loss of over 400,000 jobs since 1980. There can be no doubt that this relentless tide of imports has seriously injured one of the most important manufacturing sectors in our nation and, in the process, many of its workers.

Mexico has been a contributor to this injury. Mexico was the United States' sixth largest foreign supplier of textiles and apparel during 1990, having more than trebled its textile and apparel exports to the U.S. between 1980 and 1990. The ability of Mexico to greatly increase its textile and apparel exports to our market and thereby exacerbate this injury is unquestionably real and is the basis for our concern about the proposed free trade agreement (FTA) between our two countries.

The Multifiber Arrangement (MFA) which has been the framework for world textile and clothing trade since January 1, 1974 is likely to be phased out as part of the recently resumed Uruguay Round trade negotiations. The basic elements of the phase-out are embodied in a "Chairman's Text" and these elements are likely either to be agreed to by the participating countries or to be liberalized further in the negotiations. Of all the 14 negotiating groups which comprise the Uruguay Round talks, textiles is among the most nearly complete. Thus, it is possible to assess the impact of what is very likely to be the final textiles package in the negotiations.

The Uruguay Round phase-out, based on the proposal now being negotiated, will devastate the U.S. textile and clothing industry as we know it today.

42-518 0 - 92 - 8

The Chairman's Text will lead to import growth over the 10 year phase-out of the MFA that will displace two-thirds of U.S. textile and clothing production and will take away the jobs of 1.4 million U.S. textile and apparel workers. Another 350,000 job losses could occur in those U.S. industries which supply the textile and apparel industry. U.S. cotton, wool and man-made fiber producers will be especially damaged by the disappearance of their largest customer. An especially damaging element of the text is the product integration provision that requires the U.S. government to pick product sectors to be sacrificed during the phase-out.

Such rapid import growth will result from two provisions in the proposed agreement:

- Import growth for products now under quota control will experience accelerated growth rates during the phase-out. For example, a quota now growing at six percent annually will have its rate increased during the 10-year phase-out to 10.6 percent for each of the last three years of the phase-out.

- During the phase-out, the Administration will have to remove quotas from 45 percent of all U.S. imports. This means that the so-called "phase-out" will be very abrupt for those industry sectors and their workers who are targeted by the government for immediate loss of quota protection.

ATMI estimates, and these estimates have been confirmed by projections made by the Department of Commerce, these two features will cause imports to increase from 12.2 billion square meters last year to nearly 31 billion square meters by 2001. Over this time, the U.S. market will have grown to 34 billion square meters, so imports will have taken over 90 percent of the U.S. market. U.S. production of textiles and apparel will have shrunk from 18 billion square meters to only three billion square meters and U.S. employment will have fallen by 1.4 million workers to 300,000. This information is shown graphically in the charts accompanying my testimony.

Apparel companies will go out of business as imports from the Far East flood our market. And as they go out of business, so will their suppliers. I am such a supplier, and that means my company with its 300 employees and payroll of over $6 million will no longer exist.

In other words, with a Mexico Free Trade Agreement, we will struggle to compete.

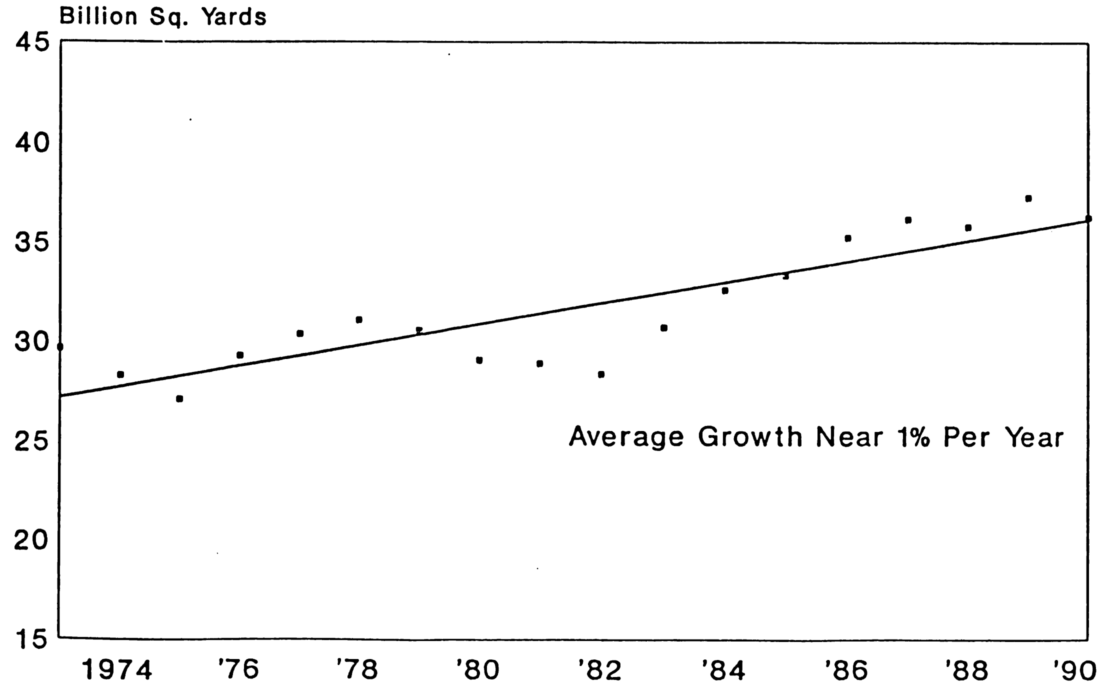
But with a Uruguay Round Agreement, we will struggle to survive.

I am leaving today for a meeting of my Board of Directors. We are down to one plant, built in 1968 and that has been modernized four times. Do I ask my Board to continue to modernize? What do I tell my workers about the future of their jobs? The answer to these questions lies in the question, "Will you, ladies and gentlemen, deny fast-track so that Congress can give meaningful input and oversight to a Mexican Free Trade Agreement. Will you, ladies and gentlemen, deny fast track so that Congress can amend the present position on textiles and apparel in the Uruguay Round -- so that my company, my workers and this great industry can survive?

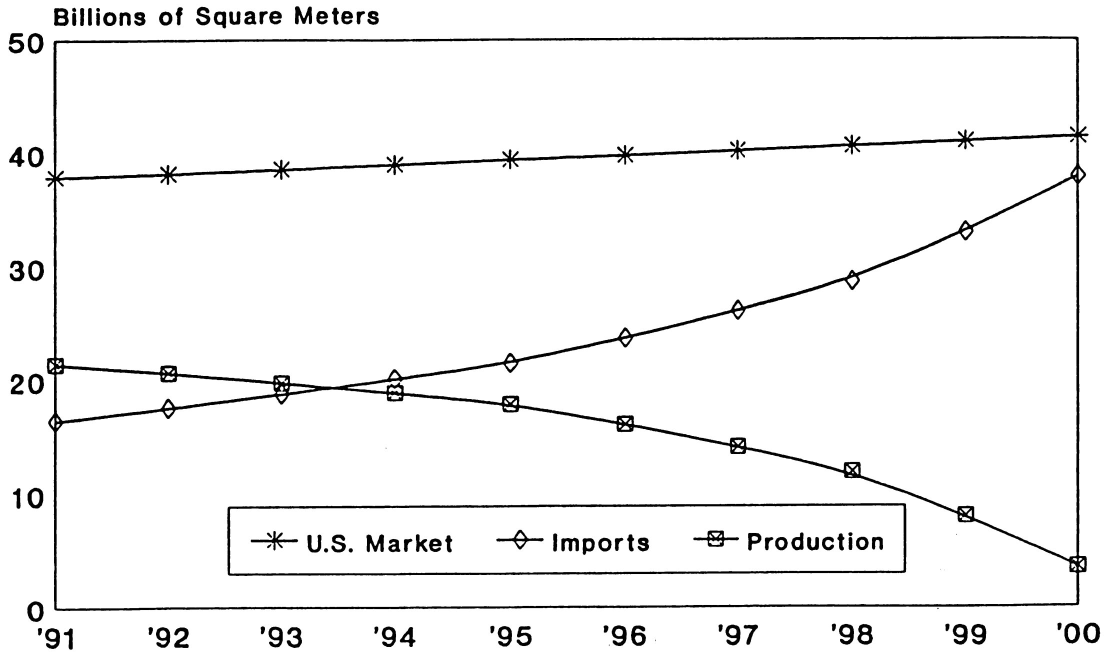
That is the question this small businessman would pose to you.

Thank you, Mr. Chairman.

THE U.S. MARKET FOR TEXTILES GROWING SLOWLY OVER TIME

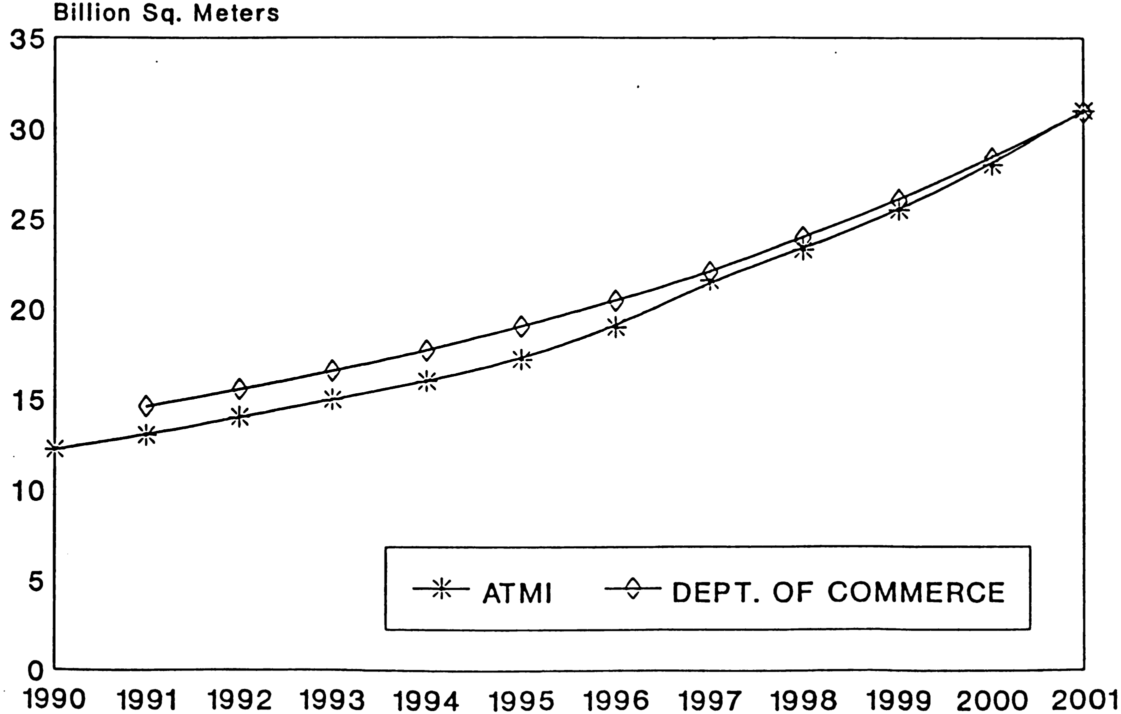


U.S. Market & U.S. Production Versus Imports



COMPARISON OF IMPORT PROJECTIONS UNDER URUGUAY ROUND TEXTILE PROPOSAL

DEPARTMENT OF COMMERCE AND ATMI



STATEMENT OF DAVID B. BLACK
VICE-PRESIDENT AND SECRETARY OF

ARRIBA LIMITED

BEFORE THE COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES
ON THE
PROPOSED U.S. - MEXICO FREE TRADE NEGOTIATIONS

MAY 20, 1991

Mr. Chairman, and Members of the Committee, thank you for inviting me to testify today. My name is David Black. I am an owner and officer of Arriba, Ltd., along with Bill Flanigan. I am also a lawyer, practicing in Sugar Land, Texas (just outside of Houston).

I am here today speaking on behalf of Arriba Ltd., a company Mr. Flanigan and I organized in 1984 to do business with the Pemex workers union, about a couple of issues we feel have very grave consequences to small business in the U.S., those being first, whether or not Congress should extend "fast track" authority to the Bush Administration to negotiate a "Free Trade Agreement" (FTA) with Mexico, and second, if such authority is extended, and a FTA passed, what can the small businessman expect when (not if) he is forced to seek the assistance of the courts to resolve a dispute with his Mexican counterpart.

While Mr. Flanigan and I have fought our battle since 1984, we have not been alone all the way, and feel obligated to acknowledge the unfailing assistance of our excellent investigator, Mr. Rob Kimmons and his company The Information Bank of Texas, Inc., who has been involved in our effort since early in (App. 1) 1986, and a team of the best lawyers in the world from Houston who came on board in 1989, those being Mr. Michael L. O'Brien, Mr. John O'Quinn of O'Quinn, Kerensky & McAninch, and Mr. William H. White and Mr. James T. McCartt of Steven D. Susman's most dedicated and tenacious law firm, Susman Godfrey, who have done

an absolutely impeccable job in taking the lead on the RICO action. Mr. Flanigan and I are very fortunate to have been able to enlist the services of these outstanding lawyers, investigators, and their firms, and we are very grateful for their invaluable assistance in this very difficult, trying, complex litigation.

The opinions expressed in this paper and my testimony are not necessarily those of our lawyers, who have not participated in my appearance before this Committee.

ISSUE I:

Should Congress extend the Bush Administration's fast track authority to negotiate a FTA with Mexico?

OUR PERSPECTIVE:

NO. The only similarity we have found in trying to do honest and open business in the United States and trying to do the same with people and organizations in Mexico is that Mexico and the United States share some of the same geographic borders. A FTA can and will not change that, any more than President Salina's fast shuffles and empty promises have changed anything in Mexico. This Committee has heard ample testimony about Mexico's absymal record on human rights, the environment, fiscal responsibility and the like, thus I need not repeat it here.

Some kind of trade agreement between the United States and Mexico may be beneficial to both countries, but only after major reforms are made in Mexico or guaranteed as a condition to such

an agreement, which we believe can only be accomplished through open and public negotiation of all aspects of any proposed FTA.

It is common knowledge that the present administration of Mexico was born to a fraud committed on the Mexican people by the PRI and President Salinas. What is our rush to embrace this fraud and even perpetuate it by financing such a morally bankrupt administration through the auspices of a FTA? Have we gone mad?

Do we trust the Bush Administration to negotiate a FTA that will adequately protect our interests? After all, that is what Congress is being asked to do by extending fast track authority. I for one have not heard that any FTA with Mexico negotiated by the Bush Administration would be conditioned upon any reforms in Mexico, not even impartial observance of elections. We are told by the press that President Salinas and President Bush are good friends. In my opinion President Bush has done and is doing an excellent job for this Country. The fact that he and President Salinas are fast friends does not diminish President Bush in my eyes, but it does not provide me with any comfort that the FTA he wants to negotiate will be beneficial to the majority in our Country or Mexico. I believe President Bush's motives are good and that he is a just man. President Salinas and his Administration are simply a fraud. Fraus et jus nunquam cohabitant (fraud and justice never dwell together). Without sweeping, meaningful and supervised reforms, American businessmen unfamiliar with the "Mexican way" of doing business are in for the

shock of their life and their lawyers will get rich dragging them out of the quagmire.

There should be no continuation of fast track authority for the negotiation of a FTA with Mexico.

ISSUE II:

What can the small United States businessman expect when he is forced to seek redress in court to resolve a dispute with his Mexican courterpart?

OUR PERSPECTIVE:

The answer and any discussion of this issue depends, of course, on many things, not the least of which (as I am sure many proponents of a FTA with Mexico will argue) is what mechanisms are put in place in such an agreement to deal with and resolve these disputes. What all of these mechanisms will overlook and can not remedy without major reform in Mexico is the basic fundamental differences in morality and thinking, the differences in the perception of what is right and what is wrong, that exist between those in positions of power and authority in Mexico and the United States.

That the Mexican goverment is corrupt in axiomatic, and if my testimony here today serves no other purpose, I hope it serves to illustrate that proposition and bring the focus of attention and debate on the continuation of fast track authority to this very fundamental consideration, for it is one thing to blindly enter into an agreement with those you assume and believe to be basi-

cally honest, as most United States small businessmen are used to doing, but quite another to knowingly seek out and solicit business from those you know are corrupt, which is precisely what a FTA with Mexico will encourage.

I do not mean to indict the many good people of Mexico by my indictment of the Salinas goverment and its officials. We have met many good, honest people in our dealings with Mexico, but even they will candidly tell you that the "Mexican way" of doing business is the only way business can successfully be conducted there, no matter how much they dislike it, and that the Mexican way is through "mordida" from the word "mordedure" for "the bite" (translated for United States businessmen, that means bribes, kick-backs and pay-offs to those you are doing business with). [As an aside, I trust any FTA with Mexico will at a minimum delineate protocol in making these payments].

Mr. Flanigan came to me in 1984 to prepare a contract and form a company to perform services relating to cleaning up huge open lakes and pits of "residual oil" (App. 3) that pollute the Pemex refinery sites in Mexico for the Pemex workers union. If United States concerns operated their refineries in the same manner, the EPA would put them out of business or in jail or both. The contract was negotiated, prepared and executed by the parties in my office. (App. 2) Two years later, after we had posted irrevocable letters of credit for millions of dollars in both United States and Mexican banks, and Mr. Flanigan had spent the better part of a

year in Mexico trying to get the contract performed without paying the requested mordida (getting himself physically assaulted several times for his recalcitrance) we filed a lawsuit to recover our damages and obtained a judgment in 1986. (App. 4) We continued to try to obtain performance and also collect the judgment. We ultimately seized the contents of a safety deposit box in a bank in McAllen, Texas, which box was rented in the name of one of the judgment debtors, which precipated a bizarre lawsuit being filed against Mr. Flanigan and the ultimate settlement (we thought) of the dispute, for another contract more lucrative than the first, with the blessing of Pemex, since I had filed a garnishment against them at the time.

The second contract fared no better than the first, and our resolve to pay no mordida remained firm, so it too was never performed, notwithstanding the personal assurances I had received Joaquin Hernandez Galicia (who had formed and run the Pemex Union since the 1930's) that it would be, and Pemex's stamp of approval. We were told performance was difficult that year because it was an election year, and after President Salinas took (literally) office and had the Union leaders jailed we came to realize the second contract would not be performed, so again filed a lawsuit and set aside the previous settlement, reinstated the previous judgment and obtained another judgment for our additional damages (App. 5) and began again looking for assets to seize.

We seized a total of three aircraft, two of which belonged to the Union and one that we have been told belonged to President

Salinas (a Boeing 757 in Dallas, Texas, worth about $40 to $50 million). We voluntarily released Salinas' aircraft and sold another; (App. 6) the third got back to Mexico after Mexican officials were paid to phoney up a registration. President Salinas must have believed we were serious by then, because he set about stripping the Union of its assets. I then filed a couple more garnishment actions against Pemex, asking them to pay over to us any money they would otherwise pay the Union (the Union and its Commission of Contracts were judgment debtors and derived the bulk of their income from Pemex) to satisfy our judgments against the Union. Pemex removed the garnishments to Federal Court claiming, <u>inter alia</u>, sovereign immunity (it is a decentralized governmental agency of Mexico) and it became apparent I was going to be disqualified since I was a witness in connection with the RICO action we then filed, (App. 7) based upon the results our ongoing investigation of all the events of the last several years.

Right before the RICO action was filed, but after President Salinas installed his new Union leadership, we were approached by a Mexican lawyer with the Union and entered into a third contract with them (under the "new" administration and "new" Union leadership) to assist the Union in tracking down assets the previous Union leadership had taken out of Mexico and accumulated here in the United States and abroad (rumored to be in excess of $12 Billion) and share what was recovered up to the amount of our then outstanding judgments. To induce us to enter into this

agreement they told us that within days of signing the agreement they would bring us documents showing where more than $100 Million in assets were located that could be seized and sold. Mr. Flanigan told them 'please, do not sign this agreement unless you can perform'. They promptly signed, and of course never performed.

In the RICO action Pemex has denied all Court ordered discovery, even on their 'soverign immunity' and 'act of state doctrine' defenses. (App. 12) Some discovery on defensive issues has been obtained from other defendants. (App. 15) All of the defendants, but especially Pemex, have shown a contempt for our judicial system that is unparalleled to any I have seen in my sixteen years as a lawyer. (App. 12,13,14 and 16) Pemex went to extraordinary lengths to get an affidavit from the Attorney General of Mexico addressed to the General Director of Pemex to the effect that what we had done and were trying to do was not legally possible in Mexico (albeit a few years after the fact) therefore they should win. (App. 8) Our lawyers understandably thought that approach was a little too simplistic (although it apparently works well in the Mexican system of jurisprudence, i.e., exparte trial by affidavit) so got an affidavit from an expert on Mexican law <u>in Mexico</u>, who said basically that the Mexican Attorney General's affidavit was no more than another lawyer's opinion, and incidentally not a correct statement of the law, (App. 9) and as we all know, opinions are like elbows, and most of us have one.

The Judge wasn't struck by Pemex's 'affidavit attack' either, and denied their motions to get out of the case (App. 10) because they said they shouldn't be sued and it was against the law in Mexico, but did allow them to appeal his decision, (App. 11) which is where the case now stands.

Mr. Flanigan and I have continued over the years, notwithstanding the litigation, to seek an amicable, workable resolution of the dispute. The problem with the residual oil contaminating the ecology of Mexico still exists, larger than ever. We have been approached over the years by many people, both Mexican and American, who invariably tell us (1) that they can solve the problem, (2) that we have been talking to the wrong people until we met them, and (3) that after the mordida is paid we will realize $X million in the settlement. We continue to refuse to pay any mordida.

Recently we were referred to some very nice people in Torreon, Mexico by the name of Burillo. Mr. Antonio Burillo S. is a businessman there, and is good friends with Mr. Alejandro Rodriguez S., (App. 21) who is a close friend (from childhood) and consultant to President Salinas. We went to Torreon on March 17, 1991, and met with Mr. Burillo and explained the situation to him, gave him some confidential written proposals we had prepared on ways we thought the matter could be settled, (App. 20) and were told that he would discuss the matter with Mr. Rodriguez. Mr. Burillo asked us to come to Mexico City to meet with Mr. Rodriguez as

soon as possible, which we did on April 11, 1991, and again explained the situation and reviewed the proposals with him. We had suggested a meeting sooner, but as Mr. Rodriguez told us at that meeting on April 11, he had been occupied with a deal he was working on for Jeb Bush (President Bush's son) and could not meet sooner. He also told us he would be meeting with President Salinas on April 15 or 16, 1991, and would discuss the resolution of our problem with him then, and let us know if he could help us resolve it by April 16, 1991.

We were very relieved that neither Mr. Burillo nor Mr. Rodriguez has told us (1) that they could solve the problem, (2) that we had been talking to the wrong people before we met them, or (3) that after the mordida was paid we would receive $X million in settlement (then again, some things go without saying down there, as we were to find out).

We later found out that Mr. Rodriguez did meet briefly with President Salinas on Monday, April 15, 1991, and did mention the Arriba problem to him. However, President Salinas had some other pressing problem in Spain that he needed Mr. Rodriguez to tend to for him, so the President that day asked the Director of Pemex, Francisco Rojas (that's right, the same guy that got the infamous Pemex 'it's against the law affidavit' from the Attorney General) to review the Arriba "file" and our now not so confidential proposals and make a recommendation on whether or not to settle the matter and if so, on what terms, by April 24, 1991. When we

didn't hear from Mr. Rodriguez by April 16, we made some inquiries and were told to sit tight and be patient, the matter was under consideration.

On Tuesday, April 16, 1991, I received a call from a person I will call Mr. "X", who had been involved in the case in the past and who is a close friend of a Don "S" who was also involved in the case in the past. Mr. X asked me in that telephone conversation if I could meet with him and Don S the evening of April 18, 1991 in Houston to discuss a possible settlement of the case, since Don S had recently gotten himself in a "prime position to settle the case". [It's only fair at this point to say that Mr. Flanigan had gone to Mexico in January of 1991 and met with President Salinas' father, Raul Salinas, Sr. to discuss settlement and was told by him that he would be sending someone to talk to us, and that I knew that Don S and Raul Salinas, Sr. are close personal friends.] Mr. X knew that Don S and Mr. Flanigan didn't get along very well, so suggested that only he and I meet with Don S.

I met with them at 8:00 P.M. on April 18, 1991, and was surprised to be introduced to another Mexican man who was present. He was introduced to me only as 'licenciado' and will be referred to as "Mr. Pemex" in this paper. Immediately after we met we went to the restaurant in the hotel and as we were sitting down Mr. Pemex looked at me and told me in no uncertain terms that we could forget any "proposals" about doing business to

resolve our disputes, that we were considered enemies of Pemex and Mexico, that they would never do any business with us, and the only way the lawsuit would ever be settled would be for cash paid to us, between $36 and $90 million, and then only on his recommendation, which would only be made if we agreed going in to the settlement to pay mordida from 20% to 50% of the amount of the settlement back to Mr. X and Don S, from which he would receive his bite. Our meeting lasted for 4 1/2 hours, during which time when Mr. Pemex left the room, Mr. X told me he was a sub-director of Pemex, and that he had the full authority of the Mexican government to be there and negotiate the settlement. Mr. Pemex demonstrated a thorough knowledge of the background and the facts of the case to me during that meeting, and authoritatively put forth Pemex's and the Mexican goverment's position on the matter, with all the attendant show of righteous indignation and cries of 'not fair' that Pemex had been sued under the RICO statute, which he said as a lawyer I knew full well was designed to be used only against crooks like the Mafia (not Pemex) as he told me how no settlement would ever be possible without the bribe or kick-back, or pay-off that we had to agree to up front.

After that meeting I had three telephone conversations with Mr. X about it and what was discussed in the meeting. I taped those conversations and set them out now verbatim, so there can be no misunderstanding that Mr. Pemex was indeed to Mr. X, Don S, and me a representative of the government of Mexico either directly or through Pemex.

★ KICKBACKS IN U.S.-MEXICO TRADE? ★

As Congress weighs granting President Bush fast track authority to negotiate a U.S.-Mexico Free Trade agreement it is worth noting the radically different ways the two countries practice business.

We present a transcript below of a negotiation for a kickback to Mexican officials in exchange for their assistance in achieving a settlement of a racketeering lawsuit against Pemex, the state owned oil company of Mexico brought by Arriba Ltd., a firm formed by two Houstonians to market residual oil pursuant to a contract signed under Texas law.

In the lawsuit Pemex asserted a 'sovereign immunity' defense to the racketeering action brought by Arriba, but from the following transcript the reader can see Pemex officials had no compunction in engaging in racketeering activities while the lawsuit was pending. Mr. David Black is a principal in Arriba and an attorney. Mr. X is a party negotiating for Pemex officials.

Identifying who is offering a bribe is important in doing business.

Mr. Black: Let me tell you candidly. One of the difficulties I have is explaining where this information (the kickback offer) came from.
Mr. X: Uh-huh.
Mr. Black: What exactly can I say and what can't I say?
Mr. X: Well you know, I thought about that and I really don't know except to say that it's a bona fide rep. Hell, I don't even remember his name.
Mr. Black: Well see that is one of the things. I've got to put it in a credible light. I mean, it won't be accepted coming from Don 'S.'
Mr. X: Yeah. We both agree on that.
Mr. Black: The next step is where did it come from? This guy was or is a subdirector?
Mr. X: A subdirector.
Mr. Black: With Pemex?
Mr. X: Yes....it depends what kind of response we get and when we get a response, if it is yes, well then obviously, then the parties' names are going to have to start being revealed.

Understanding what role your Mexican partner plays is also key:

Mr. X: My understanding is that he's in a position to recommend or not to recommend (a cash settlement of the lawsuit-Ed.). I think it's his and maybe one other person's little project to review, analyze and decide what they're going to recommend to the director.
Mr. Black: Okay. All right. So if we give thumbs up (to the kickback), then he will recommend that they (Pemex) negotiate a settlement?
Mr. X: Right.

Once a clear picture of who you are dealing with and what their role is emerges, the negotiating on the size of the kickback begins:

Mr. Black: Well, I don't know. The thing is if he's going to stick by 50 percent (kickback) of what we get (in the settlement)...
Mr. X: It won't be — it can't be that.
Mr. Black: At these numbers ($90 million) it just can't be.
Mr. X: No. And that's why I was saying, you know, I know that's, you know, I haven't even pushed 50% because I don't think that's — hell, I don't even think that that's fair... Certainly, you know, certainly a third would be more in line, but when it all comes down to it, I think I can sell them even on 25% and then you commented that at 25% you would have a problem with that because that would be more than what your share would come out to.
Mr. Black: That would be bad. That wouldn't work.
Mr. X: Right. Well, I think that the way to go at it would be, you know, this happened and it's on — before we go any further Mr. X needs to know whether or not you're interested in negotiating and if you are, then we can talk about, you know, what formula would be involved insofar as he's concerned. I mean, I don't know what else to tell you.
Mr. Black: All right. And this...
Mr. X: But I would say that, you know, that I would — I don't think I can get away with less than 20 percent, but I, you know, I'm not positive about that, but that's my gut feeling right now in terms of looking at the numbers at that range.
Mr. Black: Uh-huh.
Mr. X: Because between you and I, these guys are going to have to be taken care of. That's the information I got from...
Mr. Black: That guy from Pemex, yeah, he mentioned consulting fees now, and I assume that's right.

Once you get a solid grasp of a kickback deal it's always helpful to go back over details. You might find that the recipient of the kickback will negotiate for a higher settlement from his own organization because once he is on your side of the deal, the more money you get the more he gets:

Mr. Black: Okay. So if he recommended let's go ahead and settle it based
Mr. X: He has to know what his percentage is going to be before he goes down there (Mexico City) and does that. He's also on a contingency.
Mr. Black: I see. Good. So when it gets to the 'how much' is Pemex actually going to pay, then he could push that a little bit?
Mr. X: Uh-huh. My understanding from Don 'S' is somewhere between 10 to 15 percent is — and I think it's more believable that it would be 10 percent is what he has promised these cats and that's why I'm saying. So if there's 20 in there for my corner, that means that ten's going to be gone and Don 'S' and I are going to be divvying up the balance of the 10 out of the total of 20.
Mr. Black: I see. So the more it's settled for, the more those guys get?
Mr. X: That's right. And, you know, Don 'S' was telling me that he thought by the time it was all said and done it would be scaring the hell out of 50...I think it certainly would be in the promoter's best interest to make it go — make it be as much as possible.

Between the telephone conversations of April 23, 1991, and May 7, 1991, Mr. Flanigan and I went back to Mexico to again see Mr. Alejandro Rodriguez S., this time at our invitation, to find out, if possible, just who sent Mr. Pemex. Mr. Rodriguez was again delayed, this time in Miami (App. 19) (on his way back from Spain) meeting with Jeb Bush on his business with the Mexican government, so we could not meet with him until April 29, 1991, at which time we told him what had happened, told him we did not believe it was a coincidence that I had been called the day after the Arriba "file" was turned over to Pemex to review our "confidential" proposals and settlement offers, and played the entire tape recording of my conversation with Mr. X on April 22, 1991 for him. After hearing the tape he asked us how much money we wanted. We told him that was not why we had brought him the tape and the information, that we thought that President Salinas might want to know about it and do something about it, since both Mr. Burillo and Mr. Rodriguez had told us that President Salinas didn't condone corruption, and it was obvious Mr. Pemex was sent by someone at a very high level in the government. Mr. Rodriguez then told us he would tell the President, and asked us to settle the case for cash, how much did we want, so we told him. He told us we would hear back from him, which we did. The word we got back was President Salinas told him to stay out of it, it had been turned over to others for handling.

I expect the Mexican government will cry foul! when they read

this, and say "we didn't have anything to do with that guy, this Mr. Pemex, coming to Houston and talking about bribes, kick-backs and pay-offs". That's expected. We know who Mr. X is, we know who Don S is, and we know who Mr. Pemex is. So does the Mexican government. (To be fair again, we also know Mr. Pemex spent $50 on a long distance telephone call to Pemex from Houston the morning after our meeting April 18). We all now know who Mr. Raul Salinas, Sr. is, who Mr. Antonio Burillo S. is, and who Mr. Alejandro Rodriguez S. is. If anything in this paper about them and what happened is not true, will the Mexican government, or better yet President Salinas, please step up and identify these people, especially Mr. Pemex, and bring them forward to tell the truth? Where is this 'moral renovation' he promised?

You can see from our experiences that we are skeptical about any FTA with any governments that think and act the way Mexico does,(App. 17, 13) let alone a FTA with them that is negotiated on a 'fast track'. Maybe the American businessman can, over a period of time, adopt a mind set that would allow him to conduct his business the Mexican way (spelled m-o-r-d-i-d-a) but my question is: why does our government want us to? If they don't want us to, then they should insist, and make it a condition, that sweeping, real, meaningful and <u>supervised</u> reforms be made in all levels of government in Mexico before any FTA is considered. Many Mexicans agree.(App. 22)

The average small business in the United States probably does

not have the resources to wage the kind of battle we have with Mexico. When a dispute arises, they will have only two choices, pay the mordida or give up, quit, go home. Ours is not an isolated case. (App. 18) Pemex is quick to resort to our courts when they want something, but you'll spend years and thousands and thousands of dollars getting them to court when they cheat you. Expect the same from the banks and all other businesses connected with the Mexican government. Expect worse from those that aren't, because then you may get to go to Mexico to litigate your dispute, and pay your mordida to the Judge before he decides who he wants to win (who pays most wins - Mexican law).

To avoid any misunderstanding and hopefully prevent any retaliation against them, we want to say that we sincerely believe Mr. Antonio Burillo S. and Mr. Alejandro Rodriguez S. acted in their dealings with us in the utmost good faith, but unfortunately did not have the support of the government.

Thank you very much Mr. Chairman and Committee members for the time you have allowed me today.

Thomas S. Watson, Jr., MBA, CPA

Introduction

Mr. Watson is Chairman of the nationally recognized accounting and consulting firm; Watson, Rice and Company. Watson Rice serves its domestic and international clients from offices in Cleveland, Ohio; New York City and Washington, DC.

Tom Watson is a well known advocate for international business expansion. He has advanced forward thinking proposals in his various leadership roles.

He is the *Senior Small Business International Trade Advisor for the federal government.* He was *an official member of the U.S. Delegation to the General Agreement on Tariffs and Trade (GATT); Commissioner - International Trade for the White House Conference on Small Business.* He was author of *the international section of the Republican National Committee's Small Business Policy* and *member of the Bush/Quayle Small Business Issues Group.*

He represents the American Institute of CPAs on the *international board of the International Consortium for Government Financial Managers.*

Mr Watson has been National President of the National Association of Minority CPA Firms and has served on the *state accountancy (CPA licensing) boards in Ohio and the District of Columbia.*

He has recently addressed business and professional groups in *Johannesburg, South Africa; London, England; Frankfurt, Germany; Paris, France; and Geneva, Switzerland.*

What makes Tom Watson so special is that he uses "*Stories of the World*" to express his vision.

WRC.DC May 6, 1991

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FOR IMMEDIATE RELEASE
May 20, 1991

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Who Will Benefit From an expanded GATT Agreement or a North American Free Trade Agreement? Big Business? Small Business? Service Companies? Big Labor?

"*Each of these groups has examined the benefits of global free trade as well as freer trade with Mexico and Canada. Many people and institutions in each group will benefit from both. American small business has been misquoted or misunderstood on this issue.*"

The above is a quote from Thomas S. Watson, Jr., the Bush Administration's senior advisor for small business trade policy and promotion. Monday May 20, 1991, Watson will appear before the U.S. House of Representatives, Small Business Committee to discuss the merits of an extending Fast Track negotiating authority. The hearing will be in Rayburn House Office Building, Rm 2359A, beginning at 1:30 pm.

Watson says, "*The number of American businesses exporting has increased from less than 50,000 to more than 100,000 in the past five (5) years. Most of the new entrants into international markets have been small businesses. It has been the interest of small businesses that has expanded exports, reduced the traded deficit and improved U.S business leadership abroad.*"

Watson is the founder of Watson Rice and Company (one of the nation's leading CPA and consulting firms) and a founder of the TransAtlantic Trade Association (an association serving middle market companies in North America and Europe).

He is traveling the world, promoting worldwide employment and business opportunities for middle market companies. He talks about global markets and multi-cultural workforces, using stories of the world as his primary vehicle for opening minds and attitudes...preparing people for the changes coming with the turn of the millennium.

In this context he has released a cassette tape, "*Stories of the World*", and a video tape, "*An Interview Discussing the General Agreement on Tariffs and Trade (GATT)*". Other tapes of stories and speeches are in production.

Testimony on Extension of Fast Track Negotisting Authority
Rayburn House Office Building, Rm 2359A
Monday May 20, 1991, 1:30 pm

by Thomas S. Watson, Jr., Chairman
Watson Rice and Company, CPAs
Washington, DC, USA

Fast Track Extension:

Current Congressional debate about extension of Fast Track negotiating authority requested by the Bush Administration has not been focused on the true issue. Labor unions and others have jumped from authorizing continual negotiations to debating guesses of what issues will be in agreements that have not yet been negotiated.

The real question to be debated today is: Do we continue our pursuit of global trade opportunities for U.S. businesses or do we move toward myopic protectionalism, taking the United States out of global negotiations? Those opposed to the extension of Fast Track are trying to pull our negotiators out of continued negotiations on the General Agreement on Tariffs and Trade (GATT) and new negotiations with Canada and Mexico for the North American Free Trade Agreement (NAFTA).

If the Fast Track extension is approved Congress, Private Sector Advisors and the Administration's negotiators will work together to negotiate any trade agreements between the United States and its trading partners. This agreement, once negotiated with input from each of these three parties, will be presented to Congress for a vote without amendments. This process assures other nation's negotiators that once they have reached agreement with the three party U.S. team, they will not be subjected to political manuverings within the Congress. Under the Fast Track process any agreement negotiated be approved or declined by Congress, without amendment.

Opening freer trade within the GATT or NAFTA will benefit many Ohio Businesses. Within the past year Ohio exports to Mexico have increased by $ 3.3 billion, resulting from

lowering of tariffs and other trade barriers by the Mexican government. Mexican trade barriers were lowered because Mexico has been admitted to the GATT and had to lower trade barriers to comply with GATT membership requirements. As new trade negotiations begin, Ohio businesses will benefit further. This benefit will concentrate primarily in the communities where jobs are most needed. Small businesses owned by African Americans and other minorities will be able to sell products and services to Mexico.

Mexican government officials are saying that Mexican businesses are better suited to trade with small and medium U.S. businesses. The major U.S. businesses are too large and will overwhelm the management of the typical Mexican business. They also believe that businesses owned by African Americans and other minorities will have management that is more compatible with the current management of most Mexican businesses. Those who are running businesses in Ohio should begin to learn about the economy and culture of Latin America, in preparation for expansion into Mexico.

East Germans and many other GATT member nations are also saying that smaller businesses are more attractive business partners for their newly developing industries. Learning more about the GATT and its effect on the global market is a good way to gain a head start on preparation for entry into these markets.

In August 1991, we are taking a fact finding mission to Mexico. From this trip, we will develop business leads and a clearer understanding of the market potential in Mexico for U.S. goods and services. Later in the year we will take U.S. small businesses to Germany and the Soviet Union for meetings discussing trade policy issues and for exploration of specific business opportunities in Eastern Europe and the Soviet Union.

Sources:
To measure this GATT round's short term impact on U.S. small businesses TTA/America is using conservative estimates of the round's impact on the U.S. economy (eg. MTN Coalition's estimate of $100 million loss with failure and up to $300 million gain in success). As 40% of the US economy, small businesses stand to lose $40 billion or gain

$120 billion, depending on the outcome of these discussions.

American small business positions presented in Brussels were developed in cooperation with 30,000 American small business owners and advisors. These advisors are represented by the membership of ISAC 14, the delegates to the White House Conference on Small Business, participants in the U.S. Small Business Administration's Export Forums and participants in regional meetings organized by TTA's predecessor.

Of the estimated 19 million businesses in the United States, more than 16 million are estimated to be small, by U.S. definitions. A Department of Commerce study identified approximately 100,000 businesses reporting international trade in 1988. This is an increase from the approximately 20,000 identified five years before. Most of this growth has been from small businesses entering the global marketplace.

The TransAtlantic Trade Association has offices in Bonn, Germany; Brussels, Belgium and Washington, DC. It was formed by a multinational group of small business owners who see the need for a link between nations of the world that transcends political and national borders. Its purpose is to facilitate trade across the Atlantic Ocean between small and medium businesses. This purpose is pursued by working through the many small business and trade associations in Europe and America, helping them to leverage their resources for the benefit of trade by SMEs.

Thomas S Watson Jr is Chairman of the U.S. Industry Sector Advisory Committee on Small Business for Trade Policy Matters (ISAC 14) and American President of the TransAtlantic Trade Association for Small and Medium Enterprise (Washington/Brussels/Bonn).

Watson Rice and Company is a leading CPA and management consulting firm in the United States. It serves domestic and international clients from offices in Washington, Cleveland and New York.

GATT Issues Being Discussed in Brussels:

New International Rules for Trade in:

1. Agriculture
2. Services
3. Textiles and apparel
4. Tropical products
5. Natural resource based products

Standards for:

1. Protection of intellectual property
2. Regulating foriegn investment
3. Dispute settlement
4. Government procurement
5. Goverment subsidies
6. Import licensing and customs regulation

In addition to these specific issues, the delegates from the 107 GATT member nations were attempting to establish new guidelines for management of the GATT itself.

5/13/91

THE WASHINGTON POST 5/13/91

More
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pe's example.

man of the Howard League for Prison Reform and, since 1979, has been a member of the law faculty at the University of Southampton.

What has happened, he says, is that prosecutors and courts in Europe have come to see imprisonment less as a solution than as part of the problem. "Interestingly, the declines in Germany and England occurred during conservative administrations, and without any urging from the central governments. Neither [West German Chancellor Helmut] Kohl nor [former British Prime Minister Margaret] Thatcher particularly favored reducing prison populations. If I had to guess the reason for the shift in attitude, I'd say it was the generational influence. People who are now in key positions in the prosecutors' departments and courts are of a generation that is raising questions about the utility of prisons in controlling crime.

"They have concluded that the criminal justice process can have damaging and self-defeating effects and that every effort should be made to keep people away from courts and, particularly, prisons."

What they are doing instead is what we here call "diversion": using such prosecutorial and judicial discretion as money fines, restitution, community service and therapy—particularly drug treatment—to keep offenders out of jail. It isn't so much that they believe alternative treatment will make criminals better (though preliminary evidence suggests it might) as it is their certainty that incarceration will make them worse.

Could America benefit from such an approach? Rutherford was here as a guest of the Alexandria-based National Center on Institutions and Alternatives to urge that we at least try it.

He warns against skewing the non-prison alternatives in the direction of white offenders, as may be happening in Great Britain, where Afro-Caribbean blacks—5 or 6 percent of the population—make up 15 or 16 percent of the prison population. But he argues that because prison almost routinely makes offenders worse, the best way to reduce criminality may be to keep them out of the criminal justice system whenever we can.

The question is not whether we believe him—most of us know he's right—but whether our fear of crime will lead us to keep calling for ever stiffer sentences no matter how counterproductive (and cost-

Henry Kissinger and Cyrus Vance

Yes to the Fast Track

Rejection would be a disaster.

Within a few weeks Congress will face a seminal decision: whether to approve the so-called fast-track legislation enabling the administration to negotiate for a free trade agreement with Mexico. We strongly urge Congress to grant this authority. In our opinion, such an agreement would be the most constructive measure the United States would have undertaken in our hemisphere in this century.

The agreement is part of the Enterprise for the Americas Initiative, which looks ahead to a community of neighbors united by free trade and strengthened by expanded investment flows, environmental protection and a reduced official debt burden.

The proposal is well timed. The nations of Latin America are moving forward in rare harmony and through remarkably free and democratic processes to open their economies, stamp out inflation and expand economic output. The Enterprise Initiative is the right response by the United States to such dramatic progress in Latin America.

A free trade agreement with Mexico would contribute to a closer and more cooperative relationship with our neighbor to the south, whose population is approaching 100 million and with whom we share a border of some 2,000 miles. The destinies of our two countries are being increasingly linked, and the free trade agreement would accelerate the trend.

Mexico is already becoming a major market for U.S. goods and services. It is our third largest trading partner—behind only Canada and Japan. In 1990 U.S. exports to Mexico approached $27 billion, while exports to all of Latin America were larger than those to Japan. This growth in U.S. exports to Mexico is largely the result of the dramatic reduction of Mexican import barriers and to the dynamic leadership of President Carlos Salinas de Gortari, under whose administration Mexico has turned increasingly toward market economies. The free trade agreement would only accelerate these opportunities.

We take most seriously the issues that have been raised in connection with Mexico's environmental protection and labor standards. Considerable progress has been made, as evidenced by the closing of the oil refinery in Mexico City. Nevertheless, we agree that it is appropriate for Congress to register a special concern that the eventual agreement be accompanied by appropriate measures in these areas.

The free trade agreement with Mexico would therefore be an essential first step toward building a more enduring relationship with Latin America. Such a relationship will enable our country to compete more effectively in the new global environment. It cannot but be helpful to find global solutions to such problems as the environment and nuclear proliferation.

We are convinced that if our nation turns its back on the Enterprise Initiative, a grievous blow to democracy and economic reform in the hemisphere will have been dealt. For it will surely be taken as a sign that the United States is not really prepared to participate decisively in supporting what is a historic effort in Latin America to turn the corner toward prosperity. The consequences will reverberate throughout Latin America, where a U.S.-Mexican agreement is being seen everywhere as the opening of a new chapter in U.S.-Latin American relations.

We see no incompatibility between free trade within the Americas, on the one hand, and a strengthened multilateral system—the objective of the Uruguay Round of negotiations in the GATT—on the other. We endorse the dual strategy reflected in the request for fast-track authority for both. Enhanced free trade between the United States and its regional partners does not raise barriers to non-regional trade. Indeed, the Enterprise Initiative will add measurably to the constituency of nations committed to liberalized trade.

This is an issue that transcends partisanship, and that is why we urge from both parties extension of the fast-track authority. The Enterprise Initiative, with its opening round of a Mexico Free Trade Agreement, is an extraordinary opportunity to build a new sense of community in the Americas. Our country is once again at a historic turning point in its relations with the other nations of this hemisphere. The issue hangs on Congress's decision.

Jeane Kirkpatric

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Trading Away Jobs

Organized labor fears that a free-trade pact with Mexico would cause major harm to U.S. workers. But a Buffalo manufacturer says the focus should be on preserving jobs for the skilled.

BY KIRK VICTOR

BUFFALO—This gritty factory town on the shores of Lake Erie—best known for enormous snowdrifts, spicy chicken wings and a bridge connecting it to Canada—might seem about as far removed as you can get from the debate about lowering trade barriers with Mexico.

But on the edge of the city's business district, at a large industrial plant with vast, hangar-like floors filled with odd-looking equipment that spits out precision parts, there are 600 workers who know plenty about U.S. jobs migrating south of the border.

The plant houses Trico Products Corp., the world's leading manufacturer of windshield wipers, which got its start here nearly 75 years ago. Trico has managed to remain in Buffalo as other factories have left in recent years in search of cheaper labor and relief from relentless bargaining with aggressive unions.

But Trico's hometown loyalty was achieved at a cost. The firm since 1986 has shifted the bulk of its operations to a new plant in Matamoros, Mexico, and a companion facility in neighboring Brownsville, Texas. Depending on whose numbers you believe, the move forced 1,000-2,000 Buffalo-area employees to go job hunting.

Richard L. Wolf, Trico's chairman and chief executive officer, insists the action was necessary to enable his firm to survive a downturn in business and to keep both its headquarters and a substantial work force in Buffalo. "We realized quite simply that we could save Trico by taking the high-volume, high-labor-content operations and putting them in a *maquiladora*," the tandem plants on either side of the U.S.-Mexican border, he said.

Wolf, during a recent interview in his office overlooking an inner-city residential area, proudly noted that the firm's managers, engineers, many of its more-skilled workers and its machine-tooling operations are still in Buffalo.

Trico, after all, figures prominently in local lore. Folks here love to tell the tale of how a car driven by a young theater manager named John R. Oishei struck a man riding a bicycle on Main Street on a rainy evening in 1917. Distraught over the mishap, from which the bicyclist emerged unhurt, Oishei set out to develop a safety device to help drivers see more clearly in bad weather.

He and his associates patented their "rain rubber" in 1921, and Trico has been a mainstay of the Buffalo business community ever since, becoming the major supplier of windshield wipers to the Big Three U.S. automakers. Last year, the firm's net income was $4.3 million on sales of $243 million, an increase in sales over 1989 of $2.4 million.

But what Wolf points to as a source of pride, AFL-CIO secretary-treasurer Thomas R. Donahue sees as a foreshadowing of calamity. Far from praising Trico for preserving its Buffalo base, Donahue, in congressional testimony, has cited the firm and others that have set up *maquiladora* assembly plants as offering "a preview" of what will happen on a much larger scale if the Bush Administration succeeds in its plan to bring Mexico into a North American free-trade pact.

At a February hearing of the House Ways and Means Committee, Donahue said that "tens of thousands" of U.S. workers already have lost their jobs because of the roughly 1,800 *maquiladora* operations that now employ an estimated 500,000 Mexicans. With further relaxation of trade restrictions, he said, "the only uncertainty is how many hundreds of thousands of [U.S.] jobs will be destroyed."

Administration officials and their business allies, who are seeking renewal of the "fast-track" authority that would limit congressional review of a trade deal with Mexico, say that organized labor has it all wrong: The world has changed, and in a highly competitive global economy, jobs for the unskilled are bound to disappear in any event.

"In the long run, you can't retain low-skill jobs in a high-wage society; that's a problem the U.S. has regardless of the [trade relationship] with Mexico," R.K. Morris, director of international trade at

fering caused by the resulting job losses.

"I think corporate America has moved right into the front room of the White House," she said. "It has become fashionable to dump on American workers and to demean their value in this country."

While Hills emphasized the need to increase the labor force's skills, Kaptur wondered how much good retraining will do in light of the flight of manufacturing jobs. In travels in her district when she tells groups about increases in job training funds, she said the response is: "Marcy, where's the job?"

As the trade debate intensifies in Washington, some observers say that it is a bit ironic that labor points to Buffalo as a showcase for worker displacement. They note that there has been an upsurge in employment in western New York state as a result of the free-trade agreement negotiated between the United States and Canada in 1988.

Nearly 500 jobs have been created by Canadian firms that have opened up shop in Buffalo, which is just a short hop away from Canada's industrial heartland, said Dora T. Kukuliatas, manager of Canadian business development for the Greater Buffalo Chamber of Commerce. She said most of the new positions are in light manufacturing and demand technological skills.

But James F. Bratek, director of operations of the Buffalo and Erie County Private Industry Council Inc., which provides training to people looking for work, noted that any analogy between a trade agreement with Canada and one with Mexico is faulty. Canada's standard of living is similar to that of the United States, he noted, but in Mexico, there are no minimum-wage laws and health and safety standards are lax. "Substituting cheap Mexican assemblers for U.S. assemblers and paying them a buck an hour in Mexico," he warned, "is likely to have an adverse effect."

At the Buffalo union hall of UAW Local 2100, former Trico mechanic Tom E. Pellette echoed Bratek's concern."I can see a good relationship with Mexico and Canada, but why throw our jobs away? I can't see that," he said.

Kirk Victor

United Auto Workers official Thomas Fricano
U.S. jobs in Mexico help neither country's workers.

A MATTER OF SURVIVAL

Roberta A. Dayre, executive director of the Western New York International Trade Council, said that Trico had little choice but to proceed with its cutbacks in Buffalo. "It's not a choice between having cheap labor or not—it's a fight for survival," she said. "Trico was facing enormous worldwide competition; that it has survived at all we can be thankful for. . . . Free trade is good for everyone, [but] it hurts some people in the beginning."

Before deciding to relocate production facilities in Mexico, Wolf said, he and other Trico executives conducted an exhaustive study of their options, including a scheme to remain in the Buffalo vicinity by consolidating three Trico plants located within three miles of one another.

As a vertically integrated manufacturer that took raw materials and made them first into components and then into wiper systems, Trico had heavy capital investments and a local work force skilled in all facets of those interdependent functions. That meant, however, that unlike some manufacturers, Trico lacked the flexibility to partially shut down operations during periods of economic adversity.

Until 1979, Trico managed to ride the ups and downs experienced by the automobile industry with the help of sales to the comparatively stable market for replacement wiper systems. But that luxury began to disappear with the advent of Korean and Japanese competition (which also meant increasing pressure from Detroit to cut costs for new-car systems).

The double whammy of the oil crisis and inflation forced the Big Three automakers into massive plant shutdowns in 1979. Heavily dependent on sales to the carmakers, Trico's fortunes plunged and its bottom line hit bottom in 1982, when the company lost $9 million. "It was as bad as you can imagine for a manufacturing company," Wolf recalled.

The company managed to right itself by implementing various quality control and production techniques and by benefiting from the subsequent rebound of the auto market. But it was hit with a second shock when an analysis by the auto companies showed it cost them much more—as much as 30 per cent for some parts—to buy from Trico than to buy from foreign producers.

Looking for ways to become more competitive, Trico identified inefficient work rules that emphasized speed over quality, transportation costs between its three plants and high inventory requirements as some of its main problems. Wolf said that by July 1985, he had become so pessimistic about the firm's prospects that he almost decided to sell the company to a foreign firm. "We were just diluting our shareholders' assets," he said.

Two months earlier, Trico had agreed to a new contract with UAW Local 2100, but Wolf said he had doubts that the firm could survive under the agreement. "Management had to have flexibility—we had to have changes in the work rules," he said. The Trico chief explained that "Trico had been a very paternalistic company," with workers who were "comfortable where they were" and resistant to change. "They were making a good living; we had a very difficult cultural thing" to deal with, he said.

But UAW officials and some stock analysts said Trico's difficulties stemmed from mismanagement. The company had done little to upgrade its facilities, use more automation or market its products more aggressively, according to analysts quoted in *The Buffalo News*. Because of earnings from a large investment portfolio that included $62 million in stock in Exxon Corp., Ford Motor Corp. and General Motors Corp., the company had become complacent about its basic operations, they said.

Wolf disagreed, arguing that his predecessor as chairman—the son of the firm's founder—"was a reckless spender on manufacturing equipment in those plants."

While pondering the sale of the firm in 1985, Wolf said a Trico customer persuaded him to visit several *maquiladoras* in Mexico. He was familiar with that alternative, but had rejected it out of hand when others had suggested it earlier.

Wolf candidly acknowledged that his initial inclination was based on prejudice. "I figured they [Mexicans] were all lazy and we were a very sophisticated manufacturing [firm]," he said.

But after seeing *maquiladora* operations firsthand, Wolf was impressed with their sophistication and efficiency. After calculating the enormous savings in labor costs, he knew Trico could be saved. On Nov. 8, 1985, he called the more than 2,000 Trico workers together to deliver the bad news that two of the three Trico plants in Buffalo would be closed. Much of the production work would be moved to Brownsville, with components made there shipped duty-free to Matamoros for assembly and then returned to Texas. It was the only feasible way to keep the company going, he said.

The UAW immediately went into overdrive to try to retain all of the Trico jobs in Buffalo. A study was commissioned that demonstrated how the company could remain in the city and be profitable, but Wolf was unpersuaded. His mind was made up or, in the view of some workers, closed.

LEFT IN THE LURCH

To assertions that companies such as his have run to Mexico to exploit workers with cheap wages, Wolf replied, "In their economy, they are doing well."

Wolf's protestations ring hollow to the four workers gathered at the UAW hall, about a 20-minute drive from Trico's Buffalo plant. Chris K. Wanat, a 43-year-old former Trico worker who had built up nearly 15 years of seniority, described Wolf as someone who "treats people like objects." Wanat angrily declared, "We built the company up and he was backstabbing us."

Soft-spoken during the more than hour-long interview, except when talking about Wolf, Wanat said that since he was laid off last November, he has survived on unemployment insurance, military reserve pay, his wife's earnings from a part-time job and some help from his parents. He has two young children, and he doesn't have health insurance.

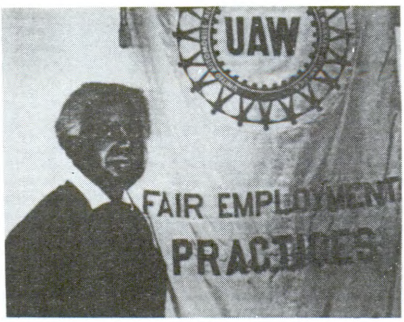
After an earlier Trico layoff, Wanat received training as an electrician, but he said that the best jobs that he can get for his level of skill pay only $6-$7 an hour. "I can't support a family on that wage at all—it would be impossible," he said, adding that at Trico, he earned more than $10 an hour. He still hopes the company will call him back and said he doesn't know what he will do if that does not happen. "I guess I'd move for social services help," he said.

Julius B. Richards, 53, was laid off by Trico about three years ago, after more than 10 years as an assembler of wiper blade racks and linkages. He has had difficulty finding a steady job that pays as well as Trico, where he made $20,000 or more with overtime. His wife does clerical work, and they support a 23-year-old son who has a learning disability.

"Life is a one-go-around thing—you work, you work, you work, and all of a sudden they pull the rug out from under you," Richards said bitterly. "That's what happened to these people around here."

When asked about such workers, Wolf noted that those who were hurt the most at Trico generally were unskilled laborers. In a more competitive environment, he said, it is incumbent on the company, its union and the state to invest in training so that "we don't let [employees] stagnate," he said.

But he added that workers bear some of the responsibility to adapt. He questioned whether Trico employees had begun looking for jobs during the period between the announcement of the firm's cutback and the time that it occurred. "Or did [the worker] wait until the bitter end, get laid off, draw unemployment . . . benefits and run those to the end and now say, 'Woe is me'?" Wolf said.



Kirk Victor

Laid-off Trico assembler Julius B. Richards
"You work, and . . . they pull the rug out from under you."

Noting that the Buffalo economy was rebounding, the Trico chief said that there "are a lot of good $8-$9 jobs out there."

"That's a lot of bull," snapped Joyce W. Hollis, who began working at Trico in 1976 as an assembler and remained in that position for almost 12 years before going into the computer programming department. She was laid off three years ago, just as she had been after working for 20 years at Western Electric when it left Buffalo to open offices in Phoenix, Atlanta and Omaha.

Hollis, 52, has two grown children and is now enrolled at a community college. Although she will have a degree in computer science when she graduates in May, she is still unhappy that Trico passed her over for jobs for which she says she was qualified. "They would rather get people off the street because when you come off the street, you don't make as much money," she said.

Pellette, the 46-year-old lift truck mechanic who was laid off from Trico for the third time in January, expressed concern about the availability of jobs for older workers. "I've been turning wrenches all my life," he said, adding that recently, "one guy did come up and say to me in an indirect way that 'you don't have too many good years left in you.' "

UAW official Fricano sarcastically observed that it's "easy for somebody to say, 'Yeah, you've got an 8th-grade or a 10th-grade education or even a high school diploma, and your job is gone, but you've got to take the bull by the horns; you're 53 years old, and you really ought to be a computer or rocket scientist.' "

The former Trico workers said they had agreed to forgo wage increases other than cost of living hikes in return for greater job security. "After concessions were made, I feel that we were betrayed," Hollis said. They expressed outrage that as the company was losing money and workers made sacrifices, Wolf's salary more than doubled. It jumped from about $100,000 to $225,000 over the last five years as he engineered Trico's restructuring.

Wolf responded that his pay is still far below that of executives in comparable positions and said that he was "not ashamed of the salary." The board of directors must decide whether the CEO is good and pay him accordingly, he said. "I know that there's bitterness," he said of the workers' reaction.

Despite his expressed pride in saving at least 600 Trico jobs in Buffalo, Wolf declined to say that the security of those positions is guaranteed. "Nothing is sacrosanct in business," he said. ■

the National Association of Manufacturers, said. "Not one job is guaranteed by the absence of this agreement."

Union officials counter by citing the plight of workers such as Ken M. Pelsey, a 44-year-old forklift operator, who had worked at Trico for four years before getting laid off in 1986. He had previously been put on the street in 1982 when Bethlehem Steel Corp. closed its Buffalo plant. Today, he works as a security guard making $5 an hour—half his Trico wage—with no health benefits. To help support their three children, his wife works in her father's bakery.

"I feel pretty low, pretty rotten, when I see that Trico makes things in Mexico and puts on the wipers 'Made in USA and assembled in Mexico,' " Pelsey said in an interview. He added that the price of windshield wipers has kept rising despite Trico's cost-cutting shift of operations and said that he believed the move was motivated by corporate "greed."

Trico's Wolf sees a certain irony in the heat that he and other company officials have taken for their decision. The 55-year-old chief executive, who began his career at the company in 1972 as general counsel, recalled that top officials of other companies often ask him why Trico didn't just turn out the lights and pull up stakes along with other firms such as American Standard Inc., Bethlehem, Republic Steel Corp., Western Electric Co. Inc. and Westinghouse Electric Corp. that have left Buffalo in recent years. Their empty plants are no longer news.

By contrast, Trico's continuing Buffalo operations, housed in a recently modernized facility extending over a large block, have the effect of rubbing salt in the open wounds of former employees who remember better times. To Wolf, however, the plant symbolizes his efforts to do the right thing for his workers. "We wanted to save as many goddamned jobs in Buffalo as possible. I lived and died with those people," he said.

FEARING THE WORST

The *maquiladora* plants of Trico and other U.S. firms—which enjoy duty-free transfers of U.S.-made parts for assembly in Mexico and their return as products for sale in the United States—are just the tip of the iceberg as far as organized labor is concerned. *(See NJ, 4/13/91, p. 862.)*

The prospect of a full-bore free-trade agreement with Mexico sends shivers down the spines of many union leaders. "To some employers, the temptation will be just too much," United Auto Workers (UAW) official Thomas Fricano said during an interview in the union's Buffalo office. "They will think, 'Why should I give a worker in Buffalo, Detroit or Chicago 8 or 10 bucks an hour—which is barely a livable wage—when I can give a worker in Mexico 70 cents an hour, ship it back here and keep the price of the product the same and fill my pockets?' "

Fricano, a regional UAW director based in New Jersey, has reason for concern because many of the *maquiladora* plants specialize in the automobile parts business. The union estimates that 75,000 of its members—including some 2,000 from Trico—have lost jobs to workers in Mexico.

He and other labor leaders are incensed, and perhaps frightened, by the flight of U.S. companies to take advantage of the break in duties, cheaper labor costs and less stringent environmental, health and safety standards. Since 1980, they note, $2 billion has been spent on Mexican assembly plants. The number of these facilities has exploded from 120 in 1970 to about 2,000 today, employing close to 500,000 workers.

Organized labor is pulling out all the stops on Capitol Hill to thwart President Bush's plans to begin trade negotiations with Mexico this summer. It opposes an extension of the Administration's fast-track bargaining authority, which expires on May 31. Fast-track commits Congress to a simple yes or no vote on trade agreements, with no amendments permitted.

Labor leaders contend that a free-trade agreement would greatly exacerbate a trend that has seen U.S. corporations abandon domestic employees in order to "exploit" Mexican workers. "We haven't done anything to help the Mexicans out at all, and we certainly didn't do anything to help the American who lost his good-paying job and now has to scuffle off and get one or two of those service-sector jobs just to try to keep their families together," the UAW's Fricano said.

A free-trade pact would create a more favorable investment climate in Mexico by providing more certainty and security to companies concerned about political changes in that country, labor officials say. By lowering the tariff on U.S. components sold in Mexico, a free-trade agreement would also provide an incentive to locate new facilities in Mexico's interior, near population centers where consumers are concentrated and where there is better access to low-wage labor, a U.S. International Trade Commission report concluded.

U.S. Trade Representative Carla A. Hills argues that the battle by organized labor is misdirected. "I can't keep plants open in south Texas if it is more economically feasible for them to move to Mexico or Korea or Taiwan," she said. Moreover, she said, focusing on such dislocations overlooks the big dividends that free trade brings, including more job creation as a result of the money—70 cents on every trade dollar—that Mexicans spend in the United States. "It lets that [business] concern in Ohio that otherwise would have moved offshore stay in Ohio, and we just have an enormous library of anecdotes about this sort of thing," she said.

Rep. Marcy Kaptur, D-Ohio, who has seen some auto suppliers leave her district—which encompasses Toledo—to relocate in Mexico, took sharp issue with Hills's stance, referring more than once in an interview to what she believes is the Administration's insensitivity to the human suf-

Phototech

Trico Products Corp. chief Richard L. Wolf
"We wanted to save as many . . . jobs in Buffalo as possible."

THE WASHINGTON POST

Robert B. Zoellick

Trade Is Not a 'You Win, I Lose' Proposition

Some have asked whether the North American Free Trade Agreement, particularly our negotiation of a free trade agreement with Mexico, is motivated by foreign or by economic policy interests. My answer is yes, and yes.

Economic policy is and must become an increasingly critical component of the United States' foreign policy strategy. That is why this free trade agreement is so important: It is a rare strategic opportunity to secure, strengthen and develop our continental base economically and politically in a way that will promote America's foreign policy agenda, our economic strength and leadership and U.S. global influence.

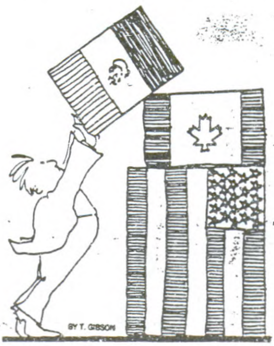
Our ability to seize this historic moment depends on Congress's willingness to extend our trade-negotiating authority so as to maintain the special congressional-executive partnership established 57 years ago in the wake of the Smoot-Hawley protectionist debacle. If Congress now decides to reverse course, to abandon the strategy that Franklin D. Roosevelt and Congress first set through the Reciprocal Trade Agreements Act of 1934, the United States will no longer be able to exert international economic leadership. There should be no mistake—the stakes are that high.

The North American FTA would increase sales opportunities for U.S. firms, improve their operating efficiency, increase real income in the United States, create jobs and spur growth in all three nations. Our neighbors' growth multiplies benefits for the United States. For each dollar of growth in Mexico, about 15 cents is spent on U.S. goods. As Mexico grows more, it will import more. Seventy cents of each Mexican-import dollar is spent on goods from the United States. This is an important point: Trade is not a "you win, I lose" proposition. By generating growth, trade multiplies the purchasing power of our trading partners.

Of course, Mexico's economy is relatively small compared to that of the United States. Its GNP, approximately $225 billion, is about the same as Florida's. Because Mexico's economy is only about 1/25th the size of the U.S. economy and its exports only amount to about 6 percent of U.S. imports, the scare stories of mass dislocations from reducing barriers simply are not credible.

Moreover, the record since 1986, when Mexico began a major opening of its economy, tells a very encouraging story. U.S. exports to Mexico have increased from $12.4 billion to $28.4 billion. Of this total, U.S. manufacturing exports increased from $10.4 billion to $24.0 billion, almost twice the rate of our overall growth in manufacturing exports during this period. Consumer goods exports tripled from $1 billion to $3 billion. Agricultural exports went from $1.1 billion to $2.5 billion, making Mexico our fourth largest customer in 1990.

Exports of corn and tripled. Exports of autos, auto parts and telecommunications equipment doubled. In fact, two highly sensitive sectors—steel and the textile, fiber and apparel industry—are now in surplus with Mexico.



"Seventy cents of each Mexican-import dollar is spent on goods from the United States."

Our bilateral trade deficit shrank from $4.9 billion in 1986 to $1.8 billion in 1990; if one excludes petroleum imports, the U.S. would have a $2.7 billion surplus with Mexico.

The FTA will create good jobs at good wages. Studies suggest it could create between 64,000 and 150,000 new U.S. jobs. Because our trade-weighted tariff for Mexican goods is only about 3 percent to 4 percent (45 percent of Mexico's goods already come in duty free), we can use the FTA to slash Mexico's higher barriers and lock in the new market openings. And it's useful to note for the record that past dire warnings about losses from reducing U.S. barriers turned out flat wrong. For example, after the Caribbean Basin Initiative opened our markets, we turned a $200 million deficit with these nations in 1986 into a $1.8 billion surplus last year. Jobs don't flee to places just because wages are lower. If they did, I imagine Haiti—which has the benefit of duty-free entry into the United States under CBI—would be the manufacturing center of the world.

The economic integration spurred by the FTA should make U.S. firms more competitive globally. Japanese firms have grown stronger by getting components from Asian sources. EC firms are doing the same with inputs from Southern Europe. Integrated operations that produce or assemble parts in Mexico can help our higher-wage workers in the same way. We even could expect a bonus, because Mexican workers will buy more from us. It would be extremely shortsighted to permit assembly or simple manufacturing jobs to shift to locations that strengthen export machines in Japan and Europe.

Worker readjustment can be addressed through a long transition period, safeguard provisions and the program under the 1988 Economic Dislocation and Worker Adjustment Assistance Act. EDWAA, funded at $527 million in 1991, will have served approximately 700,000 workers in its first three years, achieving a placement rate of about 66 percent.

If we send a signal to the Mexican people that we intend to reject their historic opening to North America—if we say trade agreements with the United States are fine for Israel, Canada and multilaterally, but not for Latins—I could see Mexico's return to autarky and protectionism. The choice faced by Congress is either yes or no—this decision cannot be put off without risking all we are building with Mexico and Latin America.

In 1933, FDR charted a new course with Mexico through his Good Neighbor Policy. About 30 years later, another new president, John F. Kennedy, called for an Alliance for Progress with Latin America. Now, another 30 years later, we have the opportunity to sustain and invigorate that vision. This generation, on both sides of the border, could integrate North America in a way that will build a foundation for stronger cooperation on diverse issues: economics, environment, energy, labor, narcotics, education and immigration—to name a few already on our common agenda.

If the Congress now rejects the approach of FDR and JFK by refusing to extend fast-track negotiating authority, it would signal a return to the days of 1930, to the logic that Congress should freely adjust and amend trade arrangements around the globe without consideration of the benefits of the package as a whole.

This reversal would take the United States out of the trade negotiating game. The other nations of the world will pin the blame on us for walking away from real bargaining. They will argue that they cannot offer their bottom-line positions if we are free to reopen agreements.

This would be a terrible time to signal to the rest of the world that the United States will abandon its leadership role in the field of international trade. Our exports are booming. The United States has just again demonstrated its capacity to lead the world politically and militarily. Some critics ask whether the United States can complement these achievements with international economic leadership. They want to know if the "new world order" will have a place for economics, and if not, they wonder if it can be meaningful.

The United States has a good answer. We are pursuing an ambitious agenda in the Uruguay Round, through the North American Free Trade Agreement and through the prospects for trade agreements under the Enterprise for the Americas Initiative. This is what is at stake if Congress fails to extend fast-track negotiating authority.

The writer is State Department counselor and undersecretary of state for economic affairs.

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Statement of
Robert B. Zoellick
Under Secretary for Economic and Agricultural Affairs
and
Counselor of the Department of State
Before the
House Small Business Committee
on
The North American Free Trade Agreement
and
Extending Fast-Track Negotiating Authority

Mr. Chairman:

I appreciate this opportunity to discuss with you the importance of the North American Free Trade Agreement and the continuation of fast-track negotiating authority.

Some have asked whether the North American Free Trade Agreement, particularly our negotiation of a free trade agreement with Mexico, is motivated by foreign or by economic policy interests. My answer is yes and yes.

Indeed, if the free trade agreement were solely in our foreign policy interest, we would not recommend it. Economic policy is and must become an increasingly critical component of the United States' foreign policy strategy. And that is why this free trade agreement is so important: It is a rare strategic opportunity to secure, strengthen, and develop our continental base economically and politically in a way that will promote America's foreign policy agenda, our economic strength and leadership, and U.S. global influence.

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Our ability to seize this historic moment depends on the Congress' willingness to maintain the special Executive-Congressional partnership on trade negotiations established fifty-seven years ago in the wake of the Smoot-Hawley protectionist debacle. If the Congress now decides to reverse course, to abandon the strategy that FDR and the Congress first set through the Reciprocal Trade Agreements Act of 1934, the United States will no longer be able to exert international economic leadership. There should be no mistake -- the stakes are that high.

I have organized my statement as follows:

I. The Foreign Policy Benefits of the North American Free Trade Agreement

II. The Economic Significance, including:

A. General Economic Benefits
B. Jobs
C. Labor Standards
D. Benefits for Small Business

III. Environmental Initiatives

IV. The Need for the Continuation of Fast-Track Trade Negotiating Authority

I. Foreign Policy Benefits of the North American Free Trade Agreement

There are five reasons why the North American Free Trade Agreement is definitely in the foreign policy interest of the United States.

- First, it will provide a unique opportunity to achieve an historic reconciliation with our two bordering neighbors.

- Second, it will give economic and political impetus to our current efforts to address a range of pressing North American problems.

- Third, it will help forge a U.S.-Mexican partnership that could lead to closer cooperation on other foreign policy issues.

- Fourth, it will send an encouraging signal throughout all of Latin America.

- And fifth, it will strengthen the hand of U.S. foreign economic policy.

First, we are at the threshold of a unique opportunity to achieve an historic reconciliation with our two bordering neighbors. The word historic is often overused, but I do not employ it lightly.

This generation of political leaders -- all of you -- has the opportunity to fulfill a lost promise of America's revolutionary generation. Our revolution won more than our independence; it was viewed at the time as a practical experiment emanating from the Age of Reason, the Spirit of Enlightenment. That's why Robert Middlekauff called it the Glorious Cause; that's how James McPherson has recently explained Lincoln viewed it, and was moved by it.

Our experiment inspired others, inspired the causes of Bolivar and San Martin. But while the revolutions against Spanish colonial authority in Latin America were victorious on the field of battle, their hopes were not fulfilled. Indeed, a traveler to Washington, D.C., today will see the special place accorded statues of Latin American liberators -- not European, not Asian -- among the capital's memorials to our American heroes: mute statements of a dream not yet realized.

The United States' hemispheric relations, starting at our Latin border with Mexico, were marked by disappointments and conflicts on both sides.

A significant strain of Mexico's nationalism reflected anxiety and distrust of its large neighbor to the north. Mexicans remember that they lost about one-half of their new nation to the United States in the wars of the 19th Century. As recently as the first two decades of this century, an American President, Woodrow Wilson, ordered major military incursions into Veracruz and northern Mexico.

Mexican wariness contributed to policies that further eroded our relations. Mexico nationalized American investments. It retreated behind policies of economic autarky.

But the original vision still survived, preserved by leaders with imagination on both sides of the border, people who understood the importance of U.S.-Mexican relations.

In the 1860s, during our Civil War, President Lincoln supported President Juarez in his struggle against French installation of an emperor in Mexico.

In 1933, shortly after assuming office, FDR rose above preoccupation with the economy at home to chart a new course with Mexico: He called it the Good Neighbor Policy. He dismissed the special interests who argued that Mexico was "different" and not ready for such a special relationship.

Almost thirty years later, in 1961, another new President, John F. Kennedy, called for an Alliance for Progress with Latin America. Many Americans answered that call to reach out to our hemispheric neighbors, to rise above those who lament about what we cannot do, saying the Latins are poorer ... or "different".

Now, another thirty years later, we have the opportunity to sustain and invigorate that vision. After 200 years, history is coming full circle. This generation, on both sides of the border, has the opportunity to integrate North America in a way that will build a foundation for stronger cooperation, cohesion, and growth.

The American people may take for granted our geopolitical good fortune. Unlike much of the rest of the world, our land borders with our neighbors, extending over 7,500 miles, are marked by the absence of military threat. But the challenges of the 21st Century will be of economics, environment, narcotics, migration, as well as military. The security of our citizens will encompass this broader set of challenges. So we need to complete the North American reconciliation in a way that strengthens our ability to handle these challenges cooperatively. The North American Free Trade Agreement can be the cornerstone of this structure.

President Bush's detailed May 1 response to the many non-traditional trade issues raised by the Majority Leader and Chairman Rostenkowski underscores our commitment to build on the FTA and to address a series of mutual interests.

The second foreign policy benefit is related to the first: The FTA will give important economic and political impetus to our current efforts to address a range of pressing North American problems.

Unfortunately, some critics of the FTA disregard the intense efforts already begun by Mexico and the United States to address our sweeping agenda. To pull these multiple efforts together, to relate them to one another, the Bush and Salinas Administrations have reinvigorated the Binational Commission (BNC) that brings together many of the cabinet members of our two nations in regular working meetings. It may be a surprise to some that these meetings involve so many different agencies: State; Treasury, including Customs;

Justice, including the FBI, INS, and DEA; Agriculture; Commerce; USTR; Education; EPA; and USIA. And now our Labor Ministers will join us.

The BNC convenes the senior-most officials of both nations to review our ongoing agenda in an integrated fashion. We also have begun a similar meeting of sub-ministerial officials to keep the momentum up between the annual BNC meetings. Then the respective agencies proceed on their work programs together throughout the course of the year. A staggering array of working groups and projects gives substance to this process, evidence that both sides recognize our common interest in addressing both traditional problems and the new challenges of the transnational agenda.

An FTA would generate economic growth that would help both countries deal with the many other issues on our binational agenda. It would eliminate or reduce the economic barriers between the United States and Mexico that create inefficiencies and higher costs. A rejection of Mexico's request for an FTA, on the other hand, will be seen as a rebuff to the Mexican political leaders and people who have sought to reorient their country toward North America. The United States would be trying to isolate itself from its neighbors, something it cannot in fact do. We would do irreparable harm to our ability to work together, with mutual respect, on the numerous issues -- migration, narcotics, environment, and others -- that do not recognize borders. We would repeat mistakes of the past. We would fail to answer the call for leadership.

The third foreign policy benefit of the FTA is that it would help forge a U.S.-Mexican partnership that could lead to closer cooperation on other foreign policy issues. It is no secret that the legacy of the past has been one of U.S. and Mexican foreign policy outlooks that have frequently been at odds. But in recent years, as we have begun to work together more closely on our economic and transnational agenda, we have also begun to move closer on foreign policy issues.

Let me give you just a few examples. Mexico and the United States -- for years at odds over Central America -- have worked together over the last two years to end the conflicts in Central America, and to secure a new peace based on liberty, free markets, and regional integration. Mexico has joined with the U.S. and others to provide President Chamorro an extremely generous renegotiation of Nicaragua's oil debt, making possible renewed access to Mexican oil on concessionary terms. Mexico is working as one of the "friends" of the UN Secretary General to end the long conflict between the Government of El Salvador and the FMLN. Mexico has joined with the U.S. and other Latins, Europeans, and the Japanese to develop a multilateral Partnership for Democracy and Development in Central America, an idea similar to that recommended by the Sanford Commission; together, we are encouraging a new generation of Central American leaders to support one another in their common effort to end bloodshed and spur economic growth.

Nor do we only see Mexico's increasing cooperation in this hemisphere: In August of last year, immediately after the Iraqi invasion of Kuwait, the Mexican government announced that it would increase oil production capacity by 100,000 barrels a day, despite capacity restraints, to demonstrate its solidarity.

Fourth, including Mexico in the North American Free Trade Agreement will send a strong encouraging signal throughout all of Latin America. A new cadre of leaders throughout the hemisphere is struggling to transform our region into one pledged to democracy, market economics, and growth. These men and women are taking a totally new attitude towards the United States. They reject the excuses of "dependency theory". But the process of progress is still fragile; tremendous barriers must still be overcome.

The governments of Latin America, and even more important, the people of Latin America, are trusting that the people of the United States will continue to stand for the ideals that we have espoused for so long. They know that the tasks of reform are theirs to perform -- but they also know that their prospects for success depend on the willingness of the United States to preserve and promote international systems based on the free flow of capital, trade, and ideas. If there is to be a New World Order that unites security and economic policies, certainly these must be our objectives.

But the Latins are troubled by the new echoes of the old nay-sayers in the United States who grumble that Latin America is in some way "different", or even a threat.

In sum, this Administration cannot promote the same vision that Lincoln and FDR and JFK acted on, if this Congress abandons America's faith in bettering itself ... and others.

Fifth, this North American Free Trade Agreement would strengthen the hand of the United States' foreign economic policy. The United States is the only nation in the world today that ranks at the top of the scales of political, military, and economic power. We have just once again demonstrated our political and military leadership. But it is also important that we remain in the forefront of international economic policy.

This agreement would be a key component of a network of global, regional, and bilateral arrangements that promote American interests. It can strengthen the capabilities of North America, enhancing our ability to compete globally.

Attention to the challenges of regionalism is definitely not the same as the promotion of regional blocs. The United States, Mexico, and Canada intend to be outward-looking, promoting liberalization of trade and capital flows in our own hemisphere as a step in promoting them globally. The signal the United States wants to send the world is that we are committed to opening markets, and that we will extend a hand to others who share that commitment. By doing so, we hope to build support globally for ongoing efforts through the GATT.

We want to support the efforts of Mexico, and then the rest of Latin America, to leave the illogic of "dependency theory" and economic autarky behind. The new market-oriented leaders of Latin America

want to do business with Asia and Europe as well as with North America. It is in our interest to support their transition to the global marketplace.

Indeed, Mexico has already demonstrated the benefits of this approach. Since Mexico joined the GATT in 1986, it has become an important advocate of multilateral liberalization. The old, sterile chants about "Northern" domination of the "South" have given way to a new debate. Mexico has opened up its markets and intends to open them more. The Mexicans want trade, not aid. The United States should be leading this new movement in the realm of political economy.

II. The Economic Significance of the North American Free Trade Agreement

A. General Economic Benefits

The North American Free Trade Agreement would create the largest market in the world: 360 million consumers with a total output of $6 trillion.

The agreement would eliminate economic barriers and inefficiencies with our first and third largest trading partners. In 1990, our three-way trade amounted to $236 billion.

The independent International Trade Commission, in a 1991 study requested by Chairmen Bentsen and Rostenkowski, found that this FTA would benefit the U.S. economy by "expanding trade opportunities, lowering prices, increasing competition, and improving the ability of U.S. firms to exploit economies of scale". The study stated that "[t]otal real income in the United States would increase because of the trade creating effects of the FTA." The ITC went on to explain: "Real income for U.S. skilled workers and capital service owners is expected to rise." And after the release of this report, the ITC has even concluded that unskilled workers will also probably enjoy a slight increase in real income (although the effect is so small as to be indiscernible).

The FTA is likely to increase sales opportunities for U.S. firms, improve their operating efficiency, and spur growth in Mexico and Canada. This growth multiplies benefits for the United States. For each dollar of growth in Mexico, about fifteen cents is spent on U.S. goods. As Mexico grows more, it will import more. Seventy cents of each Mexican import dollar is spent on goods from the United States. This is an important point, often overlooked by critics: Trade is not a "you win, I lose" proposition. By generating growth, trade multiplies the purchasing power of our trading partners. The United States gets a special benefit from these dynamic "multiplier" effects because the U.S. supplies such a large portion of our neighbors' imports.

Of course, Mexico's economy is relatively small compared to that of the United States. Its GNP, approximately $225 billion, is about the same as Florida's. Because Mexico's economy is only about 1/25th the size of the U.S. economy and its exports only amount to about 6 percent of U.S. imports, the scare stories of mass dislocations from reducing barriers simply are not credible.

Moreover, the factual record since 1986, when Mexico began a major opening of its economy, tells a very encouraging story. U.S. exports to Mexico have increased from $12.4 to $28.4 billion. Of this total, U.S. manufacturing exports increased from $10.4 to $24.0 billion, almost twice the rate of our overall growth in manufacturing exports during this period. Capital goods exports increased from $4.6 to $9.1 billion. Consumer goods exports tripled from $1 to $3 billion.

Exports of corn tripled. Exports of autos and autoparts doubled. Exports of telecommunications equipment doubled.

Our trade deficit shrank from $4.9 billion in 1986 to $1.8 billion in 1990; if one excludes petroleum imports, the U.S. would have a $2.7 billion surplus with Mexico.

I will take just a moment to cite some sectors of special concern to the U.S. in recent years. (Even a recent favorable editorial in the New York Times opined that the FTA would lead to layoffs of steel and textile workers when the evidence suggests the opposite may be the case.)

- In 1990, steel exports to Mexico amounted to about $500 million, about 18 percent of total U.S. steel exports. And our exports were about 75 percent higher than our imports from Mexico, a sharp shift from our deficit of four years ago. Indeed, our steel sector has been in surplus with Mexico for a number of years. So it should not be a surprise that the American Iron and Steel Institute, representing about 80 percent of U.S. steel production capacity, supports the FTA with Mexico.

- The U.S. textile, fiber, and apparel industry, with nearly $1 billion of exports to Mexico in 1990, has been in slight surplus with Mexico for the past couple of years. Indeed, U.S. textile and apparel exports to Mexico have increased at an average annual rate of 25 percent since 1986. This industry may offer an opportunity for complementary production that will benefit both nations, strengthening our ability to compete globally.

- Our agricultural exports to Mexico have grown over 130 percent since 1986, from $1.1 to $2.5 billion. Mexico was our third largest agricultural customer in 1989; we supply about 80 percent of its agricultural imports. (Indeed, Mexico accounted for 20-50 percent of our worldwide dairy sales between 1986 and 1989.)

As the ITC study reported, the overall benefits for the U.S. economy will be positive. Moreover, the potential benefits for the future, as our three economies improve their integration and efficiency,

should be striking. Of course, some U.S. sectors will face increased competition, so the trade agreement needs to be structured to ease the transition.

The U.S. has much to gain because our economy is already relatively open. Right now Mexico has relatively good access to our economy; an FTA will help us secure reciprocal access to Mexico's economy. To take just one example, our already sizable agricultural exports to Mexico are still less than they could be because restrictive Mexican import licenses still apply to about 40 percent of the value of U.S. agricultural exports. The overall effect of Mexican tariffs and non-tariff barriers has been estimated to result in effective protection for Mexican producers of grains and oilseeds of at least 30-35 percent.

Finally, in deciding whether to proceed with an FTA with Mexico, I think it is a serious miscalculation to assume that the alternative is Mexican barriers as they exist today. Those lower barriers are a recent phenomenon, a four-year-long policy shift by Presidents de la Madrid and Salinas away from the historical Mexican reliance on high protectionism and economic autarky. At the end of 1985, Mexican tariffs ranged up to 100 percent, the average tariff was about 30 percent, and licenses for imports protected 47 percent of domestic output (down from 92 percent earlier in the year); today Mexico's maximum tariff is 20 percent, its average trade-weighted tariff is about 10 percent, and many more licensing restrictions have been removed.

If the United States sends a signal to the Mexican people that we intend to reject this historic opening, I could easily see a return to the old ways. This is a rare window of opportunity. The choice faced by the Congress is either yes or no -- this decision cannot be put off without risking all that has occurred and all we might build.

Politics and economics are dynamic, not static, systems. There are political forces in Mexico, as in the United States, that are afraid of competition. In Mexico, these forces usually are strongly associated with antipathy to the United States. Our rejection would fuel their animosity for decades. If we explain that the U.S. cannot proceed now because Mexico is still "different", we will give these negative protectionists the upper hand.

Therefore, I believe an FTA would not only further reduce higher Mexican barriers and create growth that will benefit the U.S. and Mexico, but it would also help secure significant unilateral reductions and openings already made by the Mexicans.

B. <u>An FTA Will Create Jobs</u>

One of the most frequent assertions made by opponents of the FTA is that it will lead to job flight from the United States. This argument just does not stand up to scrutiny. But since the claim is repeated so frequently, I think it is worth noting in some detail six reasons why people concerned about good jobs at good wages should support the FTA:

<u>One</u>, jobs don't flee to places just because wages are lower. If they did, I imagine Haiti -- which already has the benefit of duty-free entry into the U.S. under the CBI -- would be the manufacturing center of the world. In fact, firms' decisions on locations of investments and their ability to pay higher wages depend significantly on the productivity of the labor force. Productivity, in turn, depends on the education, skills, capital, technology, management, and overall infrastructure (including financial and communication systems) that can be brought to bear.

We have two good experiments to substantiate my point. In 1982, the AFL-CIO fiercely resisted the extension of trade preferences to over 20 Caribbean Basin nations. Indeed, the AFL-CIO used many of the same arguments that it is using against Mexico. Let's examine the prophecy and the reality.

In 1982, Mr. Stephen Koplan, the Legislative Representative of the AFL-CIO, testified before the House Ways and Means Committee that: "The CBI incentives will only serve to further weaken the U.S. industrial base by encouraging new runaways by U.S. industries to the Caribbean region, result in a quickening of lost U.S. jobs -- skilled as well as unskilled...." He went on to forecast that if the CBI bill were adopted, "a flood of imports worldwide" would be funneled through the CBI countries.

So what actually happened after the CBI was enacted?

Our trade balance with the CBI nations soared from a deficit of over $200 million in 1986 to a surplus of $1.8 billion in 1990. We enjoy surpluses with 20 of the 24 CBI nations. These gains were driven by an increase in U.S. exports from $5.6 to $9.3 billion, an average annual rate of increase of 12.1 percent. (Imports grew from $6.1 to $7.5 billion, a 5.3 percent annual rate.) Therefore, our export increase was more than double the rate of the import increase. And during this period, the U.S. economy added over 8 million jobs.

Puerto Rico offers another test case. Despite an average industrial wage of $6.19 per hour, significant tax advantages, and free trade access to the 50 states, we have not seen a massive flight of jobs and investment to Puerto Rico.

Two, the logic of the job-loss argument is severely undercut by the fact that the U.S. is relatively open to Mexican imports now -- yet we have not seen the flight of jobs and investment. The average trade-weighted U.S. tariff for Mexican goods is about 3-4 percent and about 45 percent of Mexico's goods already enter the U.S. duty free. In contrast, the average Mexican trade-weighted tariff is about 10 percent, and Mexico still applies quotas, licenses, performance requirements, and other restrictions that limit many U.S. exports. As long as our market is already relatively open, certainly it makes sense to lower the higher Mexican barriers so as to increase opportunities for U.S. firms to export.

Three, the job-loss claimants make the mistaken assumption that trade liberalization is a zero-sum exchange, in which the benefit for one side must involve a loss for the other. In fact, the history of the post-World War II era provides ample evidence that trade liberalization creates a dynamic that produces jobs and higher incomes for all parties. Indeed, as I mentioned above, Mexican growth has an especially high payback for the United States because 70 cents of every Mexican import dollar are spent in the United States, and 15 cents of each dollar of Mexican income growth flow back to the U.S. (A one percentage point increase in Mexico's growth rate means an additional $300 million of U.S. exports.)

Four, the reduction of barriers on both sides of the border will spur economic integration that should make U.S. firms more competitive globally. Japanese firms increase their competitiveness and keep high-paying jobs by sourcing components in Asia. EC firms are doing the same with inputs from Southern Europe. A North American Free Trade Agreement is likely to channel any additional shifts of lower wage, low value-added, often assembly jobs to locations in Mexico that would be integrated with higher wage U.S. manufacturing operations.

If these jobs leave the continent, they are likely to end up in locations that feed into Japanese or other nations' high wage manufacturing operations. By increasing efficiency and lowering the cost of inputs, higher value and higher wage U.S. manufacturing operations are likely to be better positioned to take on competition from Europe and Asia. The 1991 ITC study expected the FTA to

increase real income for all U.S. workers. Indeed, a 1988 survey by the ITC found that the vast majority of responses from 323 U.S. firms stated that their Mexican assembly operations increased the competitiveness of their U.S. production. More than 100,000 jobs have been created on the U.S. side of the border to support the maquiladora facilities.

Five, while the reduction of remaining U.S. barriers to competition would require adjustment by U.S. firms and workers, it is important not to overstate the scope of these changes. Since Mexico's economy is about 4 percent the size of ours, it is not likely to overwhelm us. In addition, I would expect that this agreement, like our current agreement with Canada, will involve a long transition period. (The Canadian FTA involves a 10-year transition and some "snapback" protections that extend 20 years.) The agreement could include safeguards that ease the transition if the import flows become too disruptive. Moreover, to place this adjustment in context, it is useful to recall that about 10 percent of the United States labor force changes jobs annually (90 percent of them voluntarily); clearly, a lengthy transition period, plus safeguards, should ease the process.

We also need to be frank about the alternative. If Mexicans cannot find work at home, they will keep trying to come to the U.S. (as did many of our ancestors).

Job changes can also be expedited and eased through the financial assistance of the EDWAA program (Economic Dislocation and Worker Adjustment Assistance Act). EDWAA is a flexible, comprehensive program that Congress created in 1988 with broad bipartisan and Administration support. During its first three years, EDWAA will serve approximately 700,000 workers in industries including auto, timber, electronics, copper, food processing, aerospace, defense, and steel. EDWAA's concentration on job training and placement has produced a much higher record of success (66 percent placement rate at an average wage of $7.50 per hour) than earlier programs. Based on its successful record, the Administration and the Congress have increased its funding for program year 1991 to $527 million, up from $284 million in 1989. In the President's May 1 response to Congressional concerns, we stated that the Administration "is committed to working with Congress to ensure that there is adequate assistance and effective retraining for dislocated workers."

Six, the bottom-line analysis is that the FTA will increase jobs for the United States. An outside study prepared for the Department of Labor found that the FTA will help the U.S. add between 44,500 jobs over five years and 64,000 jobs over ten years, the bulk of them in manufacturing. Frankly, other analysts are probably more bullish. Professor Dornbusch of MIT has testified that he expects that each additional billion dollars of merchandise exports will create approximately 20-30,000 jobs; he recently told a Congressional forum that an FTA could create 150,000 new U.S. jobs over three to four years.

Any way you look at it -- the evidence from experience, the facts about whose market is already open, trade theory, U.S. competitiveness, adjustment history, or labor market analysis -- the arguments about job loss just do not stand up to scrutiny. In addition to all the other benefits, the FTA will be good for American workers. The FTA will help us keep and create good jobs at good wages.

C. Mexican Labor Standards

Some have asked about the effect of Mexican labor standards on a North American Free Trade Agreement. One strand of this concern is that we will lose jobs because firms will relocate in Mexico because of the labor standards. But as I have demonstrated above, the FTA should produce jobs for the United States.

A second strand of the labor standards argument is that an FTA would in some way do a disservice to the Mexicans whose working conditions are not as good as those enjoyed by U.S. workers. But an FTA will in fact help Mexican workers by creating more jobs and increasing Mexican wages.

As it turns out, the legal bases for Mexico's labor standards are for the most part comparable to those in the United States, Europe, and other industrialized countries. The problem is that Mexico, a much poorer country than the United States and other industrialized countries, cannot offer as good a material life to its workers. The per capita income in the United States is $21,700; in Mexico it is

less than $3,000. So it is not surprising that the compensation benefits of Mexican workers, even with a respectable system in law, are not going to be as great as those in the U.S.

The fact that the appropriate battery of legal protections is present, however, suggests that the best method of filling in the economic benefits is to help the Mexican economy to grow. With growth will come more resources for enforcement. And as more jobs are created, and unemployment falls, Mexican workers would be in a better position to negotiate better wages and working conditions.

The Mexican Constitution guarantees workers the right to form unions of their own choosing and protects workers against anti-union discrimination. Mexican unions may freely form federations and belong to international associations. They have the right to strike. Indeed, approximately 30 percent of the Mexican labor force is unionized, as compared to about 16 percent in the United States.

The Mexican Constitution provides for a minimum daily wage, set by a tripartite body with labor and government representation and adjusted by region. Mexico's child labor laws require children to be 14 years old to work, and the work is limited to a maximum of six hours a day until they are 16 years old.

In some areas, Mexican labor laws exceed U.S. standards. The Mexican social security system, for example, provides medical and maternity care, pensions, and payment for temporary and permanent disability. This system serves as a guarantor of minimum benefits

and protection for all wage earners, leaving management and trade unions to bargain about possible supplemental benefits.

Mexico has detailed and comprehensive occupational safety and health regulations. Most firms are required to set up plant-level health and safety monitoring bodies. Mexico has ratified 79 International Labor Organization (ILO) conventions dealing with worker health and safety standards, including many that the U.S. has not.

The Mexican procedures for enforcing health and safety standards tend to rely on tripartite commissions at the workplace involving labor, management, and the government. The practice is to resolve differences through negotiations, as opposed to sanctions or plant closures.

Of course, a number of workers, especially those in small firms, do not get the benefit of this system. In addition, the Mexicans recognize the need to improve enforcement practices.

The key question, however, is whether one believes that the enforcement of rules will improve and that negotiated economic benefits will likely be greater if we encourage Mexican growth and development through the FTA. The "labor standards protectionists" rely on Catch 22 logic: They believe we cannot have an FTA with Mexico until the Mexicans become as prosperous as we are, even though the FTA is a key means for Mexicans to achieve greater prosperity.

I just do not see how we will be helping the Mexican worker by making it harder for him or her to export goods to the United States. And if the Mexican worker is impeded from exporting his or her product to the United States, we should not be surprised to find that he or she may seek to come to the United States to produce goods here. It is strongly in our national interest to have a growing, prosperous Mexico that can produce jobs, higher incomes, and better working and living standards for its people.

Finally, to support the Mexican government's efforts to improve the conditions of working people in Mexico, we have agreed to begin a new dialogue on labor issues between the U.S. Department of Labor and the Mexican Secretariat of Labor and Social Welfare. We will provide additional details in the near future.

D. <u>Benefits for Small Business</u>

The NAFTA should benefit small businesses in the United States. Indeed, because of its geographical proximity and established preference for American products, Mexico is an especially important market for U.S. small business. The reduction of barriers with neighboring economies may in fact offer more accessible openings for smaller firms than similar opportunities in more distant markets. Preliminary estimates from the Commerce Department suggest that there are 8,500 U.S. exporters to Mexico and that most are small firms. It should not be surprising that small businesses -- which by their very nature must be adaptive, creative, and sensitive to market signals to survive and prosper -- could be quick to seize new opportunities to sell goods and services in Mexico.

The small entrepreneurs themselves share this expectation; they foresee increased sales and profits as a result of the eradication of Mexican trade barriers. For example, Thomas Watson, Jr., Chairman of the Industrial Sector Advisory Committee on Small and Minority Business for Trade Policy Matters -- which represents a broad spectrum of manufacturing and services firms -- wrote, "Small business owners generally are free traders and will support the Administration's efforts to begin NAFTA negotiations."

As Mexico has opened up its economy, small companies have already moved aggressively to market their products. A few examples of real cases may help make this point. Take Mark Andy Co. -- a manufacturer of printing presses in Missouri -- which has increased its exports to Mexico from $100,000 in 1987 to over $1.5 million last year. According to the company, "We have been able to maintain our employment only because we have pushed equipment into export markets." Stratus Speciality Vehicles, a family-owned company also in Missouri, started selling ambulances to Mexico two years ago. Stratus expects rising exports to Mexico in the wake of an FTA will help it lower its production costs and reduce prices to both U.S. and Mexican customers.

Other small firms that are not currently competitive in Mexico due to its high tariffs support an FTA because it will open new doors. For instance, Ponderosa Products, a manufacturer of particle board and fused/laminated board products based in Texas, estimates it could increase it exports to Mexico by 300 percent once tariffs are eliminated and add another 50 to 75 people to its staff of 200.

Another Texas firm, Alliance Electronics, predicts the eradication of Mexican tariffs would bring a 25 percent increase in sales and a 33 percent increase in its work force.

Along the border, there is a flourishing retail and tourism business where small U.S. firms are major beneficiaries. Mexican purchases along the U.S. border have grown from $1.6 billion in 1986 to $2.7 billion in 1989 and our surplus in border transactions has widened from $400 million to $900 million. As the NAFTA increases Mexican consumers' purchasing power, their spending in the U.S. will rise. The increasing need for manufacturing and professional services linked to multinational businesses has provided an additional catalyst for small businesses. Companies like Crest Packaging in Texas and Semtech Corpus Christi -- a manufacturer of power semiconductors -- have staked their business on the maquila industry. In fact, Semtech Corpus Christi has stated it would not be in business if not for the maquila industry. A study by the San Diego Economic Development Corporation indicated there is a strong and growing demand for service providers. In a survey of San Diego accountants, lawyers, real estate brokers, architects, and engineers, 61 percent of the respondents stated they have business relations with the maquila industry and 14 percent of their employment is maquila-related.

To help promote small businesses' exports, the Administration is broadening its outreach program. The Commerce Department's International Trade Administration and Minority Business Development Agency are teaming up to establish five regional

minority export resource centers to assist minority firms, including those owned by Hispanics, to take advantage of trade opportunities.

III. Environmental Initiatives

Mexico and the United States agree that our efforts to increase growth and prosperity through economic integration and the elimination of barriers need to be complemented by a cooperative effort to enhance environmental protection. We know that sustainable economic devevelopment and environmental safeguards need to be mutually supportive.

As part of our May 1 package to Congress, the Administration made a significant number of additional commitments to build on our record to date. A number of environmental groups have welcomed this step. Indeed, just this week, in the New York Times of May 19, Jay D. Hair, President of the National Wildlife Federation, wrote that "President Bush's commitment to linking the environment and free trade has made it possible for environmentalists to support putting the negotiations on the U.S.-Mexico pact on the 'fast track.'" He concluded by calling for Congress to "grant fast-track authority to begin the free trade negotiations with Mexico in earnest."

The Salinas Administration has made significant strides in recent years to orient environmental policies, as well as economic policies, toward the standards set by the United States and other developed nations. President Salinas has made

clear that Mexico is taking these steps because it recognizes they are in its own interest, not because we and other developed nations require them as an "entry ticket" to the club of developed nations. Indeed, without underestimating the tasks it faces, Mexico could become a model for nations that believe economic growth and protection of the environment are complements, not alternatives.

Nevertheless, in evaluating Mexico's commitment to the environment, we also cannot ignore the relation between economic prosperity and the ability to devote resources to environmental protection. Mexico has about one-third the population of the United States, but only 1/25th of our economic resources.

Our task, then, is two-fold: 1) to build on the program of environmental cooperation that we have already begun so as to strengthen our future efforts; and 2) to negotiate an FTA that will help Mexico grow and give it new resources to fulfill its environmental goals.

Mexico took a major step toward environmental protection in 1988 through enactment of its General Law for Ecological Equilibrium and Environmental Protection. Much of this statute is based on U.S. law and experience. The law covers air, water, and soil pollution; contamination by hazardous materials and waste; pesticides and toxic substances; the conservation of ecosystems; ecology reserves; and the rational use of natural resources.

A central element of the 1988 law is the requirement of environmental impact assessments for all new investment projects in both the public and private sectors. The law also establishes administrative sanctions and criminal penalties for noncompliance.

The Salinas Administration recognizes that laws on the books will not be effective unless they are backed by proper enforcement. So the Mexican government is acting to remedy its past problem of inadequate enforcement. It sent a strong signal when it temporarily imposed some 980 industrial closures for non-compliance. The budget of SEDUE, Mexico's Environmental Agency, increased almost eight-fold between 1989 and 1991 (from $5 to $39 million); a large part of this increase will go to develop regulations and enhance enforcement.

Mexico is also turning to international sources to expand its environmental resources. Mexico is negotiating an $84 million loan from the World Bank that will be used in large part to enhance industrial inspection. In anticipation of this loan, SEDUE recently announced the commitment of Mexican counterpart funds to create 50 new inspector positions for Mexico City and 50 more for the U.S.-Mexican border.

SEDUE is also working with Mexican industry to encourage compliance with the new law. It will begin by negotiating new compliance agreements. For example, SEDUE has reached agreement with the Maquiladora Association to encourage compliance efforts by its members. To back up the cooperative approach, SEDUE is also creating an Office of Environmental Inspection for Industry to oversee, control, and impose punitive sanctions on industries violating environmental standards.

To give you a fuller sense of the Mexican and U.S.-Mexican efforts underway in the environmental area, I would like to review briefly three topics: Mexico City air pollution; the border environment; and conservation cooperation.

President Salinas has demonstrated a strong personal commitment to cleaning up Mexico City's air. President Salinas once explained to President Bush that when the children of Mexico City were asked to draw pictures of the sky, they used hues of gray, not of blue; there were no pictures of bright suns. He wanted to be the President, President Salinas continued, who made the skies of Mexico City blue again for the school children.

In 1990, Mexico instituted interim plans to cut traffic and industrial activities in Mexico City during periods of serious air pollution. Then Mexico made the multibillion dollar decisions to phase out leaded gasoline and to order that all new cars, including over 40,000 city taxis, be equipped with catalytic converters. The government has also shut down all 24 military industrial installations in the Mexico City area because of potential environmental risks.

Just this month, President Salinas demonstrated dramatically the depth of his commitment by shutting down permanently Mexico's largest oil refinery. This one facility accounted for 8 percent of Mexico's distillation capacity; without it, Mexico will even have to import certain refined products. This move is estimated to cost Mexico about $500 million and up to 5,000 jobs.

These are deeds, not just words. We should be helping Mexico to acquire the wealth to continue the job, not slighting Mexico as "different" just because it is still too poor to meet our standards.

To support these Mexico City efforts, the U.S. entered into an agreement in 1989 to provide technical support. Together, we have developed training and technical assistance programs to deal with the problems of air and water pollution, hazardous waste, and environmental health. This EPA program has been supplemented by a U.S. Department of Energy agreement with the Mexican Petroleum Institute to prepare a multi-million dollar computer model study of Mexico City's air pollution. We have been working with Mexico and the Inter-American Development Bank to put together a debt-for-nature swap to fund reforestation efforts around Mexico City.

The border environment offers a second challenge for our two nations. Our initial efforts have been built on programs of the 100-year-old International Boundary and Water Commission (IBWC). Today the IBWC focuses heavily on cross-border water pollution issues, coordinating with EPA and SEDUE on a number of important projects. For example, the IBWC is currently constructing major sewage collection and treatment systems, at an estimated cost of over $234 million, at Nuevo Laredo, Tijuana/San Diego, and Nogales.

In 1983, Mexico and the U.S. established a new framework for cooperation on border environmental pollution, supplementing the IBWC by tackling a broader range of pollution problems. Under this framework, EPA and SEDUE established and oversee work programs under five annexes on air and water pollution, hazardous waste, and accidental spills.

In November 1990, Presidents Bush and Salinas decided to meet the challenge of more rapid economic integration by developing a comprehensive long-term plan to clean up the border environment. This cooperative plan will parallel and complement the FTA. (The transition period for our U.S.-Canadian agreement was 10 years.)

Based on an evaluation of progress under the 1983 agreement, this new plan will address problems of air and water pollution, hazardous wastes, chemical spills, pesticides, and enforcement. We hope to develop this new plan with the Mexicans by the end of this year, before we complete negotiations on the FTA. And we intend to involve nongovernmental organizations and the public in the development and implementation of this plan.

Therefore, the U.S. and Mexico plan to complete two parallel, mutually supportive long-term agreements -- one on trade and the other on environment -- looking toward our cooperative transition into the 21st Century.

Both countries also will look for ways to involve multilateral support for our bilateral efforts. For example, the Pan American Health Organization, in close cooperation with the U.S. Public Health Service and the Mexican Ministry of Health, is now developing a plan to assess priority public health problems along the border. Among these are environmental health issues related to air pollution, water pollution, and hazardous waste.

A third example of U.S.-Mexican cooperation is the area of conservation. We have been partners in conservation since 1936. And we want to accomplish even more on this topic in the future.

In the area of wildlife and parks, the U.S. Fish and Wildlife Service, the Forest Service, and the National Park Service each have developed cooperative agreements with their Mexican counterparts. For example, the Fish and Wildlife Service is currently pursuing nearly 100 projects with SEDUE -- ranging from conservation and management of migratory bird habitats, to protecting endangered species such as the jaguar, to research on tropical birds.

The Salinas Administration is well aware that Mexico has a unique wealth of species that it needs to preserve. Mexico's extensive domestic wildlife conservation programs include the establishment of 44 national parks, 8 reserves, and 14 biosphere reserves. The U.S. National Park Service's cooperative arrangements with SEDUE include 8 joint projects -- for example, studies of the black bear and peregrine falcon, and firefighter training. Moreover, Mexico has announced that it intends to join CITES, an international convention for the protection of endangered species.

In the area of tropical forest protection, the U.S. Forest Service and AID have developed a cooperative program with the Mexican government for sustainable forest management. Cooperative work under the auspices of the North American Forest Commission already involves the U.S., Mexico, and Canada. Joint projects include, for example, cooperative research on insects and pest control, protecting migratory bird habitats, and remote sensing inventories of Mexico's forests.

In the area of marine resources, the United States and Mexico are working together in multilateral fora to place stringent restrictions on waste generated from ships in the Gulf of Mexico. In addition, we are cooperating on programs to reduce the deaths of dolphins and sea turtles. While not yet at our level, Mexico has reduced by 58 percent the number of dolphins killed per net deployed between 1986 and 1989. Last year, President Salinas announced that Mexico would end its commercial harvest of endangered sea turtles and employ methods to protect sea turtles in its fisheries.

The above description offers you just a brief sampling of the intensive efforts by Mexico, and by Mexico and the United States acting together, to develop a broad-based program of environmental protection. Both Mexico and the United States intend to do more in the future -- to address problems and opportunities that respect no borders.

I believe all of us want to do more to improve environmental conditions in Mexico. Economic growth is the essential ingredient in helping us to do so. So I have been deeply disappointed by the statements of some who seem willing to sacrifice the FTA and U.S. support for increased growth in Mexico to make their unilateral point. If they kill the FTA, the price of their actions will be paid by poor people in Mexico. It will be paid in the form of a degraded, not improved, environment in Mexico. And it will also hurt the cause of environmentalists who want to blend growth and environmental protection through sustainable development. The word will race throughout Latin America that some North America environmentalists act like latter-day colonialists: They offer a new justification for keeping the Latins down.

For in the final analysis, I would hope people will answer this question honestly: Do you really believe killing the FTA will improve Mexico's efforts to clean up the environment?

The answer must be no.

First, it is a practical fact of life that the Salinas Administration's innovative efforts to improve the environment are far less likely to win popular support if the Mexican people are struggling to find jobs or eking out a minimal existence. The economic growth associated with the free trade agreement will strengthen the government's efforts to upgrade environmental safeguards.

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Second, the rejection of an FTA on environmental grounds will lend great support to those in Mexico who argue that the United States and other developed nations are only pressing environmental topics so as to perpetuate the developing world's dependency. The Salinas Administration has rejected this excuse; instead, it is seeking to demonstrate that Mexico's sustainable economic development depends on prudent use of resources and attention to Mexico's national natural heritage. It is in our interest that the Salinas Administration succeed.

Third, our joint efforts with Mexico on environment and conservation questions have been based on a spirit of cooperation, reciprocity, and respect. We have avoided self-defeating actions that might appear to Mexicans like the hectoring commands of "gringos" who have in the past inserted themselves into Mexican sovereignty and decision-making. It would be a great mistake, I believe, to replace our increasingly successful approach with Yankee environmental mandates that establish a new admission price for economic cooperation. Such a demand will have the opposite effect from what we hope: The Mexican people, who today want to clean up their own environment because they recognize it is in their own interest, will resent environmental dictates that they may perceive as an insult to their own commitment and as a new form of eco-protectionism.

In sum, I hope this Committee shares my vision of a new and strengthened U.S.-Mexican relationship, founded on the FTA and economic integration, but also extended to address a whole series of transnational problems, including the environment, that neighboring states will have to face together in the 21st Century.

IV. The Need for the Continuation of Fast-Track Trade Negotiating Authority

My testimony has focused on the benefits to the United States of the North American Free Trade Agreement. Yet the issue facing the Congress right now is whether to vote for a resolution that would deal a death blow to the so-called fast-track authority that enables us to negotiate trade agreements. As the Committee knows, either body of Congress can stop us dead in our tracks by passing a resolution prior to June 1 that yanks this authority.

I would like to close by giving five reasons why the Congress should reject any move to end the fast-track negotiating authority.

First, as Senate Finance Committee Chairman Bentsen has pointed out, a rejection of the fast-track process would be an historic shift away from a partnership between the Congress and the Executive on trade negotiations dating back to 1934. As you know, for the first 140 years of U.S. history, general tariff bills were one of Congress' major items of business. The high watermark (or low watermark, depending on your point of view) of this process was the infamous Smoot-Hawley bill, the Tariff Act of 1930, the last general tariff law enacted by Congress. Smoot-Hawley made trade policy through "log rolling" of special interests, with no appreciation of the overall result. This bill amended tariff schedules for more than 20,000 items, establishing the nation's highest tariff structure.

The protectionist disaster of Smoot-Hawley, for the United States and the world, led President Roosevelt and Secretary of State Cordell Hull to press a new approach shortly after assuming office. The new Congressional-Executive partnership took the form of the Reciprocal Trade Agreements Act of 1934. Under this Act, Congress authorized the President to negotiate and implement substantial tariff reductions (of up to 50 percent) and most favored nation (MFN) tariff treatment -- without further approval by the Congress. By 1945, the U.S. had negotiated 32 agreements with 27 countries, granting tariff concessions on 64 percent of all dutiable imports and reducing rates by an average of 44 percent. The "Wise Men" who created the GATT and the post-World War II system of trade liberalization worked from this valuable bilateral precedent.

In the decades that followed, the Congress continued to grant the Executive the ability to negotiate tariff reductions without specific Congressional approvals. As trade agreements became more complicated, involving the reduction of barriers other than tariffs, the Congress authorized fast-track authority in order to adapt and continue this successful Congressional-Executive partnership. Since receiving this authority in 1974, the Executive has brought back an agreement from the Tokyo GATT Round, and bilateral agreements with Israel and Canada.

If the Congress now refuses to extend this fast-track negotiating authority, it would signal a return to the days of 1930, to the logic that Congress should freely adjust and amend trade arrangements around the globe without consideration of the benefits of the package as a whole.

This reversal of 57 years of success would take the United States out of the trade negotiating game. The other nations of the world will pin the blame on us for walking away from real bargaining. They will argue that they cannot offer their bottom line positions if we are free to reopen agreements.

Second, this is a terrible time to signal to the rest of the world that the United States will abandon its leadership role in the field of international trade. The United States has just again demonstrated its capacity to lead the world politically and militarily. Some critics ask whether the United States can complement these achievements with international economic leadership. They want to know if the New World Order will have a place for economics, and if it doesn't, they wonder if it can be meaningful.

In the field of trade, the U.S. has a good answer. We are pursuing an ambitious agenda in the Uruguay Round, through the North American Free Trade Agreement, and through the prospects for trade agreements under the Enterprise for the Americas Initiative. This is what is at stake if the Congress fails to extend fast-track authority.

Third, it is economic folly for the United States to signal its withdrawal from the world trading system at exactly the time when U.S. exports are playing a more critical role for the United States economy. Over the last four years, U.S. merchandise exports

expanded by 75 percent. Over those four years, exports accounted for 40 percent of U.S. GNP growth. Last year, our exports grew 8.5 percent, producing 88 percent of U.S. growth.

U.S. manufacturing is in a highly competitive condition. In 1988, manufacturing represented 23 percent of our GNP, a post-World War II high. Given the efficiencies and streamlining that took place through the 1980s, American manufacturers are now well positioned to compete around the globe. C. Fred Bergsten of the Institute for International Economics recently wrote that U.S. exports could readily contribute $50 billion annually in real economic growth over the next five years.

It just does not make sense to put our export power at risk by taking the Administration out of the trade negotiating game. Because the Congress would have effectively removed our ability to settle disagreements through market-opening negotiations, our only recourse would be tools of threat and retaliation, which would certainly generate counterthreats and counterretaliation.

Fourth, it is important to underscore that Congress' continued authorization of fast-track negotiating authority does not forgo any of Congress' rights to vote against the agreements we bring back. It is one thing to vote against an agreement because you believe that, taken as a whole, it does not serve U.S. interests. But it is quite another thing not to even authorize the Executive to negotiate packages to bring back for your consideration. If you have doubts about the Uruguay Round, or the North American Free

Trade Agreement, please do not tell the Administration that we cannot even attempt to meet your standards; at least give us the chance to negotiate a good agreement for the United States.

Finally, it is simply not the case that the agreements that we bring back offer no time or opportunity for Congressional input. In fact, the "fast track" is really neither "fast" nor a "track". It's not "fast": the process is actually deliberate; and it's not a "track": no one is being railroaded into approving agreements that might be negotiated.

Fast track procedures have absolutely nothing to do with the pace at which we conduct negotiations. Ambassador Hills has assured the Congress on a number of occasions that we will not rush to conclude any agreement -- Mexico, Uruguay Round, or otherwise -- merely for the sake of agreement. We will take the time needed to consider all relevant issues and to consult fully with you and the private sector. Until we arrive at good agreements -- ones that we believe you will agree are good -- there will be no agreements. We proved that in the Brussels negotiations of the Uruguay Round.

Furthermore, Congress has a full role throughout the entire process: in formulating negotiating objectives; in close consultation as the negotiations proceed (in the Uruguay Round, the Congress reviewed each and everyone of our proposals and many Members were with the negotiators in Brussels); in close consultation before any agreement is signed; and in full participation in drafting implementing legislation. As the U.S.-Canada Free Trade Agreement of 1988 substantiated, there is ample opportunity to meet many particular Congressional interests

through the drafting of this implementing legislation with the appropriate committees of jurisdiction.

Conclusion

Mr. Chairman, I would like to conclude by thanking you for scheduling these important hearings. With all the other events in the news, it has been difficult for the proponents of fast-track negotiating authority and of the North American Free Trade Agreement to get the attention of the public and the Congress so as to make the overall and detailed case for this historic economic and political opportunity. Instead, special interests have defined these questions narrowly, obscuring America's national interest.

I hope this Committee will let its colleagues in the Congress know that the foreign relations of the United States need to promote the economic leadership and economic interests of the United States. I hope this Committee will tell them that the North American FTA will produce growth, jobs, higher incomes, competitiveness, and economic strength for America. I hope this Committee will stand for progress for Mexico and our hemisphere -- because it will work to our benefit.

Working together, we can realize that long-unfulfilled American vision.

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